Annual Report 06

Our Powerful People

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Our Powerful People

The power supplied to our homes and businesses everyday is more than the work of complex generators and a sophisticated network of wires and cables; It is the transfer of the energies, dedication and skills of our men and women.

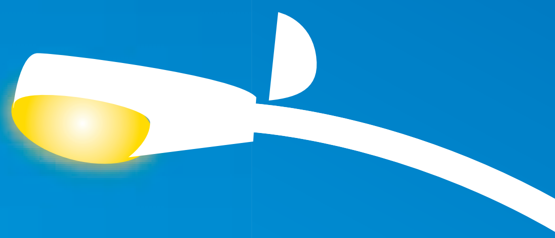
Everyday they ensure that the country moves forward sometimes at great personal risk.

From clerical staff to our linemen we boast not only some of the best employees but really great people.

We are proud of them and the role they play in the overall performance of Lucelec.

This year's report proudly pays tribute to these truly "POWERFUL PEOPLE".

Contents



Mission Statement

We will provide affordable energy and services that are safe, reliable, and environmentally responsible.

We will meet the expectations of our Shareholders and Employees while being a catalyst for social and economic development in Saint Lucia.

Vision
A world-class provider of energy and other services by 2015.

Corporate Data

Registered Office
Head Office
Saint Lucia Electricity Services Limited
Sans Soucis
John Compton Highway
Castries
Saint Lucia
Telephone number: 758-457-4400
Fax number: 758-457-4409
Email address: lucelec@candw.lc
Website: www.lucelec.com

Attorneys-at-law
Mc Namara & Company
20 Micoud Street
Castries
Saint Lucia

Auditors
KPMG Chartered Accountants
Morgan Building
L'Anse Road
P.O. Box 1101
Castries
Saint Lucia

2006 Performance Indices & Targets

TARIFF CHANGE VS INFLATION
Percentage change in basic price of electricity (excluding the fuel surcharge cost adjustment) as a percentage of the annual inflation rate.

Target: 95%
Performance: 95.48%

SYSTEM AVERAGE INTERRUPTION DURATION INDEX (SAIDI)
SAIDI is the total customer hours of interruption divided by the total number of customers served. It is calculated by summing the products of the duration of each outage in hours, times the number of customers affected and dividing the result by the total customer base.

Target: 12.0 hours
Performance: 10.44 hours

REPORTABLE INJURY ACCIDENTS (RIA)
RIA is the number of reportable injury accidents.

Target: Limit the Reportable Injury Accidents to no more than 3
Performance: 3

SYSTEM LOSSES
System losses are calculated by dividing the difference between units generated, and the sum of the units sold and units used by LUCELEC by the units generated and expressing the result as a percentage.

Target: 9.90%
Performance: 10.06%

SPECIFIC FUEL CONSUMPTION
The number of units (kWh) of electricity produced from each gallon of fuel consumed.

Target: 19.43kWh
Performance: 19.45kWh

WORK HOURS LOST
Work hours lost as a percentage of total nominal work hours.

Target: 2.50 ours
Performance: 2.45 hours

SAFETY AUDIT RATING
A percentage rating assigned during the company's annual safety audit exercise.

Target: 92%
Performance: 96.3%

CUSTOMER SERVICE PERCEPTION VS EXPECTATIONS
Customer perception of service quality expressed as a percentage of customer expectation of service quality.

Target: 82%
Performance: 78.2%

RETURN ON EQUITY
ROE measures how well the company is using shareholders invested money. It tells you the number of dollars of profits the company can earn for each dollar of shareholders' equity and is calculated by taking a year's worth of after tax earnings and dividing by the average shareholders' equity for that year.

Target: 19.5%
Performance: 20.74%

2007 Targets

TARIFF CHANGE VS INFLATION:
97%

SAIDI:
10.25 hours

RIA:
3

SYSTEM LOSSES:
10.0%

SPECIFIC FUEL CONSUMPTION:
19.47gals/kWh

WORK HOURS LOST:
2.5%

SAFETY AUDIT RATING:
95%

CUSTOMER SERVICE PERCEPTION VS EXPECTATIONS:
80%

RETURN ON EQUITY:
18.25%

Performance

Chairman's Report 2006

Electricity sales performance in 2006 though an improvement over 2005 was below the target set for the year. The main contributor to this less than expected performance was the high and escalating costs of fuel which dampened domestic demand despite significant improvements in the country's income and also the Company's promotional programme to encourage consumers to conserve on electricity use by using energy more wisely. As a consequence our corporate targets were affected and six of the nine were met or exceeded, with two between target and threshold, and the other below the threshold.

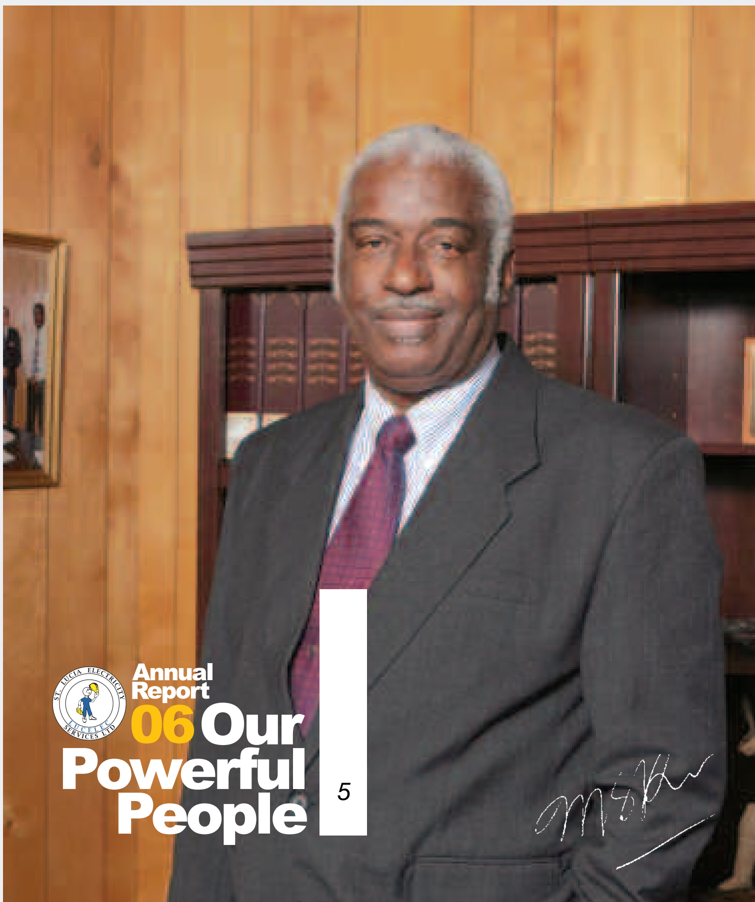
In the face of escalating oil prices and the negative effect of fossil fuels on the global environment the Company accelerated its plans to seek cheaper sources of fuel (heavy fuel oil and natural gas) and/or more benign and environmentally friendly alternative energy sources (geothermal and wind) but faced many challenges. These included delays in the process of acquiring the most appropriate lands for wind farms; the possible difficulty in negotiating heavy fuel supply contracts; the undesirability of entering into long term fixed price contracts when technological and other developments can bring about rapid changes in energy prices; and the delays by neighboring countries to commit to natural gas as another source of fuel.

During the year the Board, Management and Staff with contributions from various other stakeholders finalized an annually rolling Strategic Business Plan which should provide a framework for the Company's medium to long term initiatives.

Within three weeks of the close of the financial year, one of our two major external financial shareholder partners, CBPF Saint Lucia Ltd. announced that its parent Company the Caribbean Basin Power Fund (CBPF) had sold its entire interest in CBPF Saint Lucia Ltd to Emera Inc, a Canadian based Company owning and managing power companies in North America. The deal at US$22m for a 20% holding of Lucelec's equity highlights the underlying shareholder value in the Company and its growth prospects. It also brings on board a long term strategic investor partner that is progressive and very experienced in the power utility business and in particular its exposure to varying regulatory regimes and its involvement in power generation involving virtually all types of energy sources including, heavy fuels, wind and geothermal – three areas that Lucelec is currently pursuing. Their experience will be an invaluable asset in terms of improving and enhancing our strategic outlook and operating efficiencies. Canada and some of its long standing investors in Saint Lucia have, and continue to be tried and tested friends of Saint Lucia contributing meaningfully and significantly to our development. We therefore welcome Emera not only for what it brings to the table but also because we look forward to a continuing fruitful and mutually beneficial partnership between our two companies and countries.

Corporate Governance

Given the fact that corporate governance is such a topical issue I will address the subject in this report as it is particularly critical to a monopoly utility not only in terms of transparency but also



Mr. Marius St. Rose, Chairman

because good governance is an economic asset that contributes significantly to efficiency and hence to reduced tariffs.

Governance is basically about the structure of major stakeholder relationships and the modalities, policies and procedures that should or do guide or direct their relationships and operations. Apart from customers Lucelec has four major stakeholders: The Government that grants the licence and the Law that specifies the critical financial, technical and supply conditions under which the Company operates; Shareholders, who are the owners of the Company and who provide the funding and bear the ultimate financial risk without having any resort to guarantees and collateral; Board of Directors who are charged by the Shareholders with the responsibility of directing, and supervising the affairs of the Company and ensuring that its vision, mission, objectives, obligations and targets are achieved; and Management and Staff who are responsible for the day to management of the Company in accordance with statutory requirements, corporate targets, policies and Board directives.

Government grants the license for the exclusive generation and distribution of power for commercial purposes. This does not preclude individuals and enterprises from generating power for their own use and/or for sale to Lucelec at negotiated terms and conditions (including) prices.

Apart from applicable general laws the legislative framework (including original legislation, revisions and amendments) governing Lucelec's operations are: The Companies Act which applies to all public companies, The Securities Exchange Act which applies to listed companies, and the Electricity Supply Act which is specific to Lucelec. The latter stipulates the specifics of what the Company can and cannot do. It covers such areas as tariff and fuel surcharge determination, distribution of tariff amongst the various consumer classes, allowable returns on capital, levels of eligible expenses for tariff determination purposes, frequency of power supply, tolerance levels for power fluctuations, and many other aspects of the Company's technical operations.

To ensure that the control of a monopoly utility like power is not concentrated in a few hands 'the Public Utilities Restriction on Shareholding Act' restricts the maximum shareholding of any one investor or related group of investors to 20% of the total shareholding. Although not stipulated by any law the Company has always hoped that at least one of the larger investors could be a strategic investor with interest, expertise and experience in the power sector and who could assist with Lucelec's internal development and enhance its international profile. The desired ownership structure for Lucelec would be large investors who could provide the necessary capital and/or expertise for capital expansion and technological development; the Government of Saint Lucia to help synchronize the Company's interests and plans with what is mutually advantageous to both interests; and many domestic consumer/investors.

In relation to their investments Lucelec shareholders organize themselves and determine their arrangements and relationships with each other through By-Laws that are structured in accordance with statutory requirements and international best practice. These specify, inter alia, the appointment, termination, tenure, functions, remuneration of the directors and other officers of the Board; nature, frequency and agenda of, and required reports for, meetings and shareholder information; and determination of decision making and majorities required for different decisions. Lucelec's policy is to have a Board of eleven including the ex officio Managing Director. Each elected/nominated director represents 10% of the shareholding but as required by law and convention directors are on the Board to represent the best interest of the Company and not the individual shareholder or investors who nominated and/or elected them.

The eleven person directorate should comprise persons of integrity with an aggregated skill set that would satisfy the skill needs for the Board's successful deliberations and decision making. The desired skill set should include persons with the appropriate level of competencies and experience in power engineering, banking, finance, accounting, economics, utility regulatory systems, business, strategic and human resource management, law, social psychology and public and customer relations. Directors must declare any material or potentially conflicting interest in any operational matter (including contracts) and other matters to be discussed and decided upon by the Board and, to minimize any perceptions of dealing on the basis of insider information, can only trade in shares for their personal account with the advance knowledge and agreement of the Board and only during limited periods of opportunity pre-specified by the Board at which all information on Company performance and prospects would have been in the public domain.

Directors serve for renewable terms of 3 years with one-third of the membership retiring annually to facilitate some continuity in Board membership. Since the capitalization of the Company in 1995 and the broadening of the shareholder base from three to over eight hundred there has been the Board practice of appointing the chairman (who has a casting vote in the event of tied and deadlocked voting) from the directors representing the minority shareholders in order not to accentuate the possible advantage to any large investor. Moreover this arrangement gives more permanence and stability to the office as the right to recall is less probable than with director nominations by large investors. Board meetings are held quarterly but in order to facilitate more frequent and in depth examinations of Company affairs the Board has appointed three Board committees for Audit, Governance and Human Resource that meet as necessary. These committees report and make recommendations to the Board.

The Company has a policy of giving its staff every opportunity to advance within the Company. Through training, attachments and mentoring it tries to equip staff to assume increased responsibilities and to increase productivity. In order that its other stakeholders, particularly customers, get the best and most efficient service it tries to recruit the best, the brightest and the most committed on the basis of performance and attitude largely from within the Company's ranks. However, in the case of Senior Management it seeks the best, competitively from within the Company and from Saint Lucia and the region. Thus our senior management is as good as the best in the region. There are codes of conduct to guide staff and this includes involvement in extra Company activities that may either conflict with Company activity in terms of time or other interests.

The Company provides training and exposure in corporate governance in general and the role and functions of directors and of shareholders in particular for its directors and shareholders. Additionally it complies with the Guidelines for Caribbean Corporate Governance which are consistent and in conformity with international best practice. In accordance with one of these guidelines which recommends a maximum term of ten years for directors I intend to offer my resignation as Chairman and Director to the Board during the year for their consideration and to give sufficient time for seamless transition arrangements to be made.

Conclusion

Let me take this opportunity, once again, to thank my Board Colleagues, Management and Staff and all well wishers for your commitment, cooperation, dedication, contribution and effort to advancing Lucelec's objectives during the year and look forward to your continued support at even higher levels to face the many challenges that lie ahead. I also wish to salute our ex Financial Controller, Mr. Duleep Cheddie who has been serving the Company at the Board and management levels beginning with his deep involvement in the capitalization and democratization of the Company in the nineties when he was the CDC Representative for the East Caribbean. On my behalf and that of the Board and Management we all wish him well in his new endeavours.

Marius St. Rose
Chairman

BOARD OF DIRECTORS

Board of Directors

- **Marius St. Rose, OBE – Chairman**

  Mr. St. Rose is an Economic, Management and Financial Consultant. He joined the Board of Directors of the Company in July 1996 and has a M. Sc. (Economics) and a Diploma in Management Studies. He chairs the Human Resource Committee of the Board.

- **Trevor M. Louisy – Managing Director**
  Mr. Louisy was appointed to the Board on 1st January 2004. He has a B. Sc. (Electrical Engineering) and is a member of the Human Resource and Audit Committees.

- **Peter I. Foster**
  Mr. Foster is an Attorney at Law in private practice. Mr. Foster holds a BA (Hons.) Law and was appointed to the Board of Directors as the representative of the Castries City Council on 1st November 2003. He was the Chairman of the Governance Committee. Mr. Foster resigned effective 2nd March 2007.

- **Isaac Anthony**
  Mr. Anthony is the Director of Finance, Government of Saint Lucia. The Government of Saint Lucia appointed him to the Board of Directors on 6th November 2002. He holds a B. Sc in Economics and Accounting and an Executive MBA. Mr. Anthony is also a Certified Government Financial Manager and is a member of the Audit and Governance Committees.

- **Emma Hippolyte – OBE**
  Miss Hippolyte is the Director/Chief Executive Officer of the National Insurance Corporation and was appointed to the Board by that organisation on 25th January 2002. She is a Certified General Accountant and a Certified Fraud Examiner. Miss Hippolyte chairs the Audit Committee.

- **Lucas Missong** *(missing from photographs)*
  Mr. Missong was appointed to the Board of Directors on April 14th 2004 by CBPF Saint Lucia Limited and is the Vice-President, Investments at Caribbean Basin Power Fund. He holds a M.A. from the Fletcher School of Law and Diplomacy and a B.A. in Political Science and Economics. Mr. Missong was a member of the Human Resource Committee. Mr. Missong resigned from the Board effective 16th January 2007.

- **Jonathan January** *(missing from photographs)*
  Jonathan January was appointed to the Board of Directors on 17th February 2006 by CBPF Saint Lucia Limited and is the General Counsel and Partner at Energy Investors Funds. He holds a B.A. in Economics from Wayne State University and a J.D. from the University of California at Berkeley. Mr. January was a member of the Audit Committee. Mr. January resigned from the Board effective 16th January 2007.

- **Joel Huggins**
  Mr. Huggins was appointed to the Board of Directors in January 2005. He is the Managing Director of Dominica Electricity Services Limited and a member of the Audit Committee. Mr. Huggins holds a B. Sc. in Mechanical Engineering.

- **Marlon Holder** *(missing from photographs)*
  Mr. Holder was appointed to the Board of Directors by First Citizens Bank Limited on 9th July 2004. He was the Deputy Chief Executive Officer of First Citizens Bank Limited and was a member of the Governance Committee. Mr. Holder is a Certified Investment Banker, and holds a B.A. from the University of Toronto and a MBA from Henley Management College. Mr. Holder resigned from the Board effective 18th December 2006.

- **Michael Toney** *(missing from photographs)*
  Mr. Toney is a Partner with Pannell, Kerr, Foster and was appointed to the Board

by First Citizens Bank Limited on 9th July 2004. He is a chartered Accountant and also holds a B. Comm. (Hons.) – University of Ottawa. Mr. Toney was a member of the Audit and the Human Resource Committees. Mr. Toney resigned from the Board effective 6th June 2006

- **Stephen Mc Namara**
  Mr. Mc Namara is a Senior Partner with the law firm of Mc Namara & Company, the Company's external legal advisors. He was appointed to the Board on 27th October 2005. Mr. Mc Namara became a Barrister at Law after attending Lincoln's Inn – Inn of Court School of Law. He is the Chairman of the Governance Committee.

- **Michal Andrews**
  Mrs. Andrews is a self-employed Tax and Value Added Tax (VAT) Consultant. She was appointed to the Board by First Citizens Bank Limited on June 29th 2006. Mrs. Andrews holds a B. Sc. in Accounting, a Diploma from Harvard University – International Taxation and is a Fellow of the Chartered Association of Certified Accountants. Mrs. Andrews is also a member of the Governance Committee.

- **Larry Howai**
  Mr. Howai is the Chief Executive Officer of First Citizens Bank Limited. First Citizens Bank Limited appointed him to the Board of Directors on 2nd January 2007. Mr. Howai holds a B. Sc. in Economics and is a Certified Management Accountant. Mr. Howai is a member of the Human Resource Committee.

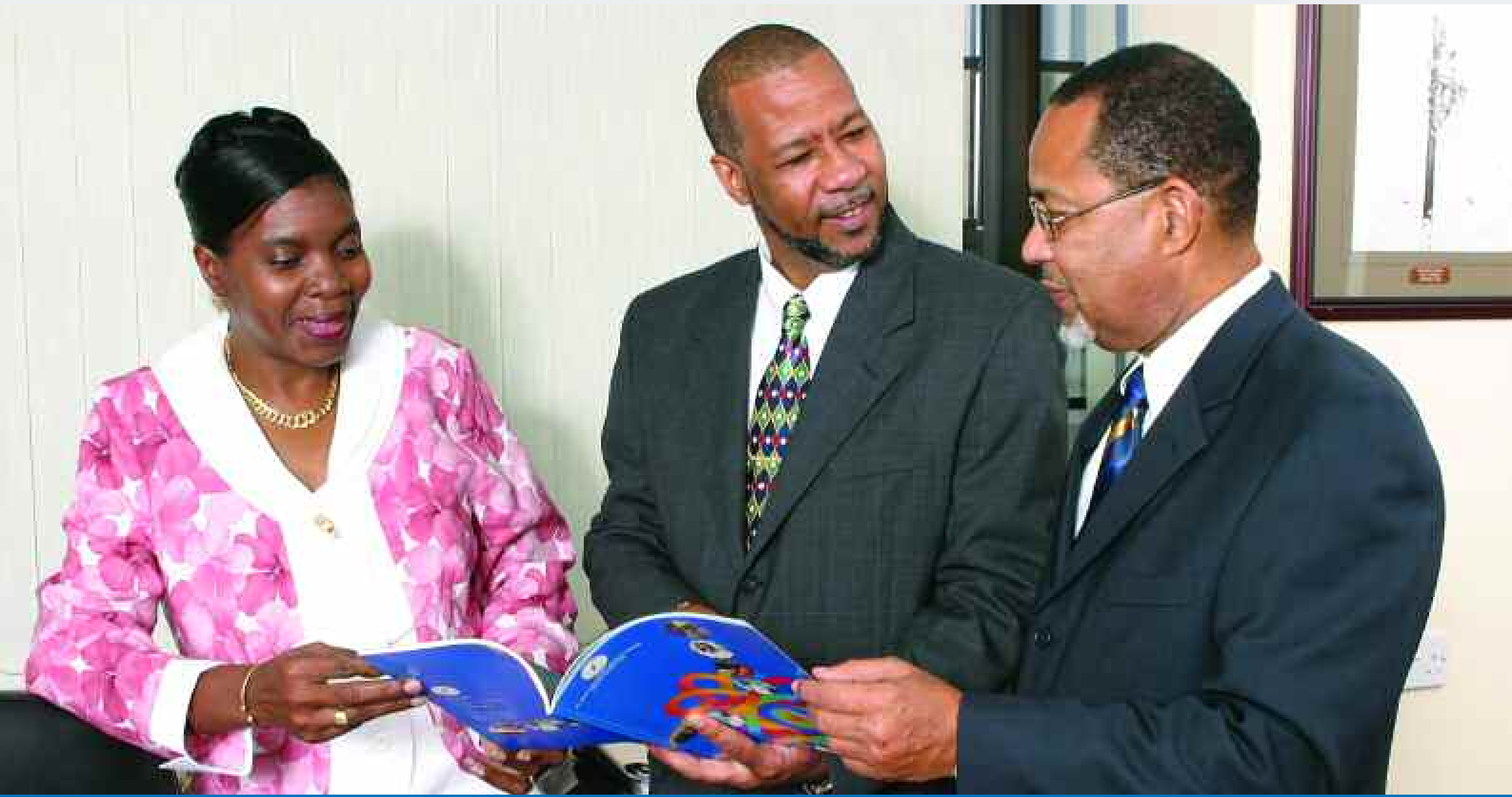
- **Christopher G. Huskilson**
  Mr. Huskilson is the President and Chief Executive Officer of Emera Inc. He was appointed to the Board of Directors by CBPF Saint Lucia Limited on January 24th 2007. Mr. Huskilson holds a B. Sc. (Engineering) and a M. Sc. (Engineering) from the University of New Brunswick. Mr. Huskilson is a member of the Audit and Human Resources Committees.

- **Raymond R. Robinson**
  Mr. Robinson is the Vice President - Integrated Operations, Emera Inc and President, Emera Utility Services. He was appointed to the Board of Directors by CBPF Saint Lucia Limited on 24th January 2007. Mr. Robinson holds a B. Sc. (Electrical Engineering). Mr. Robinson is a member of the Governance Committee.

- **Irving John**
  Mr. John was appointed to the Board of Directors on March 5th 2007. He is the representative for the Castries City Council. Mr. John is the principal partner in the firm of John's Utility Services which provides meter reading services to the Company.

Stephen Mc Namara *Marius St. Rose* *Raymond R. Robinson*

BOARD OF DIRECTORS

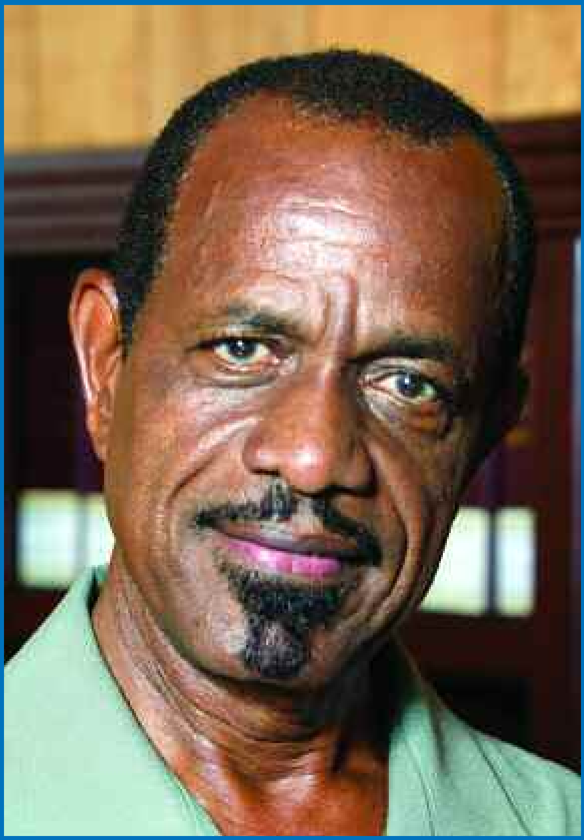


Emma Hippolyte Trevor M. Louisy Joel Huggins

Larry Howai Michal Andrews Christopher G. Huskilson

Board of Directors

Issac Anthony *Peter I. Foster*



Irving John

Board of Directors

Directors' Report

Directors' Report

The Directors present their report for the year ended 31st December 2006.

Principal Activities

The Company's principal activities consist of the generation, transmission and distribution of electricity. There were no significant changes to the nature of the Company's activities during the year.

Directors

The Directors of the Company since the 41st Annual Shareholders Meeting were:

• Non-Executive Directors:
• Marius St. Rose
• Emma Hipploype
• Isaac Anthony
• Lucas Missong (up to 16th January 2007)
• Peter Foster (up to 2nd March 2007)
• Irving John (from 5th March 2007)
• Joel Huggins
• Jonathan January (up to 16th January 2007)
• Stephen McNamara
• Michael Toney (up to 6th June 2006)
• Michal Andrews (from 29th June 2006)
• Marlon Holder (up to 17th December 2006)
• Mr. Christopher G. Huskilson (from 24th January 2007)
• Mr. Raymond R. Robinson (from 24th January 2007)
Mr. Larry Howai (from 2nd January 2007)

Executive Director:
• Trevor Louisy

Mr. Michael Toney representing First Citizens Bank Limited resigned from the Board of Directors effective 6th June 2006. Mrs. Michal Andrews was appointed by First Citizens Bank Limited on 29th June 2006 to replace Mr. Toney.

Mr. Marlon Holder representing First Citizens Bank Limited resigned from the Board of Directors effective 18th December 2006. On 2nd January 2007 Mr. Larry Howai was appointed by First Citizens Bank Limited to replace Mr. Holder.

Messrs. Jonathan January and Lucas Missong representing CBPF Saint Lucia Limited resigned from the Board of Directors effective 16th January 2007. On 24th January 2007 CBPF Saint Lucia Limited appointed Messrs. Raymond R. Robinson and Christopher G. Huskilson to replace Messrs. January and Missong.

Mr. Peter Foster representing Castries City Council resigned from the Board of Directors effective 2nd March 2007. Mr. Irving John was appointed by the Castries City Council to replace Mr. Foster.

Financial Results

The Company sold 284.4 million kWh of electricity earning gross revenues of EC$227.8 M, an increase of 12.1% over the previous year, the main cause of which was a change in the tariff mechanism from April, 2006. Under the new tariff mechanism the base tariff was revised to reflect more current fuel prices thereby significantly reducing the fuel surcharge cost adjustment factor.

Net profit for the year was EC$27.0M, which was an increase of 5.0% over the previous year.

The Company achieved Earnings per Share of EC$2.30 which was 5.0% higher than in 2005 and the dividend distribution was EC$1.42 a 6.0% increase over the previous year.

Assets acquired during the year amounted to EC$26.1M, and loan drawdowns were EC$19.9M mainly related to the new Generating unit #8, and loan repayments were EC$13.6M.

In 2006 the Company and the Inland Revenue Department resolved the issue of withholding taxes, penalties and interest relating to insurance premiums paid to non-resident companies. The Company paid the sum of EC$9.5M and this was in respect of the financial years from 2001 to 2005. Consequently the results for the year ended 31st December 2005 were restated and the opening Retained Earnings for that year adjusted to take account of the effect of this charge. The Company was granted a waiver on these taxes with effect from January, 2006.

Dividends

The Board of Directors declared a dividend for the financial year ended 31st December 2006 of 70% of the Company's adjusted after tax net profits, having paid an interim divided in December 2006 of $0.60 per ordinary share.

The total dividend for the 2006 financial year amounted to $1.42 per ordinary share.

State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Company during the financial year.

Events Subsequent to Balance Sheet Date

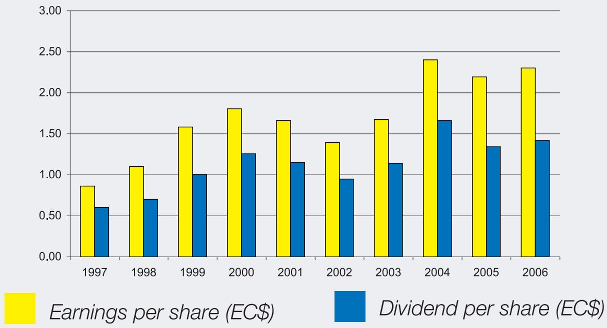
In January 2007, Caribbean Basin Power Fund Limited sold CBPF Saint Lucia Limited to Cayman 456 Limited a Cayman Island incorporated Company controlled by Emera Inc. a Nova Scotia based utility Company. Consequent on the aforementioned sale, Emera Inc. became the indirect shareholder of a 20% shareholding interest in the Company.

Apart from this and other matters discussed elsewhere in the Annual Report, the Directors are not aware of any other matters or circumstances which have arisen since 31st December 2006 that have significant effect or may significantly affect the operations of the entity in subsequent financial years, the results of those operations, or the state of affairs of the entity in future years.

By order of the Board of Directors

Gillian S. French
Company Secretary

Earnings & Dividends Per Share



Operations Review

General

The year 2006 turned out to be very challenging especially during the last two quarters. This was primarily due to the efforts associated with the implementation of the first phase of the JDEdwards (JDE) Enterprise Resource Planning software.

The overall performance of the Company however, places us in a position to achieve six of the nine targets set for 2006, with two between target and threshold and one below the threshold. The targets achieved include System Average Interruption Duration Index (SAIDI), reportable injury accidents (RIA), specific fuel consumption, work hours lost, safety audit rating and return on equity. The performance in the areas of system losses and tariff change vs inflation were between target and threshold and unfortunately for the second consecutive year our performance in the area of customer service perception vs expectations fell short of the threshold.

The target for tariff change vs inflation was achieved as there was a small reduction in the rates at the beginning of the year prior to the amendments to the Electricity Supply Act. In addition there was an amount made available for redistribution via a mechanism of reduced tariffs to the Hotel and Industrial customers. The Minister also exercised his right to include customers whose monthly consumption was below 180 kWh, thus reducing the life line tariff. The format for calculating this target going forward needs to be reviewed in light of these amendments.

The performance in the area of System Average Interruption Duration Index (SAIDI) which is an indication of system reliability continues to be excellent, but improvements will become harder to achieve as the figure approaches single digits in perhaps two more years.

The target set for Reportable Injury Accidents (RIA) was achieved for the first time in 2006. The target will be maintained going forward but the performance is expected to improve. Staff at all levels are expected to take the issue of safety as a personal responsibility.

The target for fuel efficiency was surpassed and this was primarily due to the effective management of the operating and dispatching regimes for the engines as well as the maintenance practices. Of course the commissioning of Cul de Sac Power Station (CDSPS) #9 contributed to the achievement, but the contribution of this unit had been factored into the target. The intention is to further improve in this area in 2007 by literally trying to ‘squeeze’ more electricity from a gallon of fuel, thus benefiting the customer through a lower fuel surcharge cost adjustment factor.

There has been an improvement in the area of work hours lost and the performance just exceeded the target. Next year the intention is to strive for still fewer hours of work lost due to absences.

The Safety Audit was completed in January 2007 and the rating received surpassed the target set confirming the correlation between RIA and the results of the Safety Audit.

The performance in the area of Return on Equity exceeded the target. Although there was a lack of realization of the projected sales revenue, implementation of new accounting rules helped to push the performance figure up slightly.

Line losses continued to improve although the magnitude of the improvement is getting smaller. While this can be expected, the target will be continually reviewed to reduce the figure to single digits. Performance in 2006 fell between the target and the threshold.

Customer Satisfaction improved to 78.5% compared to the score of 71% in 2005, but still fell short of the 2006 threshold of 80%. While the target of 82% and the threshold set for 2006 may appear somewhat optimistic, the Company is committed to reaching a target of 90% within the shortest period of time.

The Company and the Government reached agreement on the long outstanding issues of with-holding taxes and the WASCO debt. A number of other outstanding tax reconciliations were also concluded brining the Company's tax situation up to date and avoiding the threat of "qualified accounts".

Two amendments to the Electricity Supply Act were made in 2006 bringing a measure of relief to some categories of customers through a system of profit redistribution. Present indicators suggest that there will be further distribution in 2007. It is expected that further amendments to the Electricity Supply Act will be considered during the course of 2007.

All the outstanding issues in relation to the Lucelec Trust Company Inc have been finalized and the Trust will shift back into high gear in the New Year. Our System Control Engineer – Mr. Goodwin d'Auvergne was recently appointed the new Executive Officer. The outgoing Executive Officer Mrs. Nicole Duboulay is commended for her work in managing the Trust Company during its embryonic stage.

The long outstanding claim with Wartsila on CDSPS #9 was resolved and the Company entered into a contract for what may be the final unit at Cul De Sac. Unfortunately it will not be available in time for the Cricket World Cup but the Company will work closely with the owners of large standby generators to ensure that capacity requirements will be met in the event of an emergency.

The Strategic Business Plan was approved by the Board and the Company is well on its way to implement the initiatives identified for 2007. The future hinges on the successful implementation of this Plan as it will ensure that the Company is able to deal with the challenges on the horizon and continue to be a model for other utilities in the region and further afield.

We were recently awarded a CariCRIS BBB rating, the first rating to be awarded in the OECS and the first utility in the region. The rating is testimony to the hard work and commitment of staff at all levels in the organization.

The Company engaged the services of CariCRIS, the Caribbean's regional credit rating agency to analyze its operations and to issue a rating. A rating of Cari BBB – Investment grade was issued to the Company based on a notional US$15M debt issue and applies to both local and foreign currency. LUCELEC was the first Company in the OECS and the first utility in the Caribbean to obtain a rating from CariCRIS.

The Company's achievement was based on its strong financials, dominant market position and efficiency. As part of the exercise an informal rating was also carried out for the Government of St. Lucia since, all things being equal, a corporate rating cannot be better than that of a sovereign entity.

The rating achieved is based on measures for the entire Caribbean region and were the Company to be evaluated within the scope of the OECS countries a higher rating would have been obtained.

Regulation

During 2006 the Electricity Supply Act No. 10 of 1994 was amended with the passage of amendments Nos.: 12 and 13 of 2006.

The primary objectives of these amendments were to make adjustments to the tariff setting and rate of return mechanisms.

The tariff setting mechanism was changed so that a greater component of the fuel cost is included in the basic tariff rate, thus reducing the impact of the fuel surcharge to a minimum. The average price of fuel in 2005 was EC$5.804 per gallon and this was the component reflected in the 2006 tariff rate. The average price for fuel in 2006 was $6.5358 per gallon and this will be the component reflected in the 2007 tariff rate. The new mechanism also makes provision for the current price to be used in the calculation if it is lower than the previous year's average price.

The methodology for the computation of the Rate of Return was changed to allow for returns in excess of a certain amount to be shared equally between shareholders and certain categories of customers. The rate allowed is now between 2% and 7% above the cost of the most recent long-term bonds issued by the Government of Saint Lucia on the Regional Government Securities Market, with a minimum rate of 10%. In the event that the actual rate of return achieved exceeds the upper limit of the range, then 50% of that excess is distributable to Hotel and Industrial customers. The distribution is based on consumption in the previous year. The Act also provides for the Minister by Order, to include "customers in need of special protection".

In 2006 the rate on Government of Saint Lucia long-term bonds on the securities market was 7.4%, thus permitting the Company a return of 14.4% before any sharing is considered. The actual return on rate base for 2006 was 18.91% making an amount of $3.1m available for redistribution.

Capital Resources

During the year proceeds from borrowings amounted to EC$19.9M and was utilized for payments relating to the new generating Unit No. 8 and substation and system improvements.

Retained Earnings improved from EC$46.0M to EC$53.9M despite the negative effect of an adjustment in respect of taxes assessed for prior years of EC$9.5M (See note 18 to the Financial Statements).

At the end of the financial year the debt equity ratio remained unchanged at 43/57.

Future Outlook

Based on unit sales during late 2005 and early 2006, the Company revisited its forecasts and is currently projecting unit sales growth of 4.6% for 2007. This is lower than the previous five year trend. This figure also provides for the positive impact expected from additional accommodation requirements mainly due to the ICC Cricket World Cup schedule for March/ April 2007.

The Company is expected to continue to focus on efficiency measures, new revenue opportunities and reduction in the costs base.

Generation

The year 2006 was very successful for the staff and the Department. The performance targets for the Department were designed to encourage increased productivity with limited resources thereby ensuring optimum utilisation of all available resources. The major task facing the Generation Department was the performance of all scheduled and unscheduled maintenance on its generating plant while meeting the system demand for power. This was achieved to a large extent by scheduling outages at off peak times when the load demands were lower. A total of 330.76 million electricity units were generated during 2006 as compared with 323.61 million in 2005, an increase of 2.2%. The peak system demand was 49.8MW recorded on August 7, 2006 at 14:50 hours, whereas the previous peak was 49.2MW in 2005. Fuel efficiency increased to 39.01% from 38.95% due in part to the new Wartsila unit installed in 2005 and optimization of power dispatch.

Cul de Sac Power Station, the sole generating facility continued to perform well as it provided the power required by the nation. This year the Department undertook two major 60,000 hr overhauls on CDSPS #5 and CDSPS #6, and a 12,000 hr inspection of CDSPS #9. This was the first time in the history of the Department that the 60,000 hr overhauls were done on the Wartsila engines and the staff gained a wealth of knowledge and experience under the guidance of a Wartsila Service Engineer. All the overhauls proceeded without any major incident. All planned inspections recommended by the manufacturer were performed as scheduled and the plant is now in excellent operating condition.

A project to install two additional bulk fuel tanks at Cul de Sac Power Station commenced during the year. The contractors have been identified and the contract drawn up, however the construction phase is expected to begin in the first quarter of 2007. A Heavy Fuel Study was also commissioned in 2006 and we are currently awaiting the recommendations of this study from the consultants.

The Operations Section ensured that the plant was operated at its optimum during the year and through their constant monitoring and control, reduced the possibilities of breakdowns. The garage which falls under the Generation Department also dispatched its services with a high level of professionalism and ensured that the fleet of Company vehicles were in excellent working condition during the year.

Generation staff received training in the areas of Diesel Mechanics, Lucelec Safety Rules, Supervisory Management, Woodward Electronic Governors, Scaffolding Erection and Use, and First Aid and CPR.

Future outlook

During the year 2007 the Generation Department will continue to provide a reliable and efficient supply of power by utilising a structured work programme taking into consideration the system demands, and ensuring the further training and development of all staff.

The Planned Maintenance programme forms the basis of the work schedule for the entire year. A structured program according to the manufacturer's recommendations has been developed and will be implemented to ensure a reduction in forced outages and hopefully eliminate possible breakdowns during the year. One of the key items on this program is the 60,000 hr Overhaul on CDSPS #4 which will be done in the first quarter of 2007 to ensure that all plant is in good working condition before the commencement of the ICC Cricket World Cup.

During the first half of the year the focus will also be on completing the project to install the additional Bulk fuel storage tanks. This facility is needed to further enhance the security of our fuel supplies and all efforts will be made to have it completed by June 2007. The second major project in 2007 will be the installation of an additional 10.2 MW of generating capacity at CDSPS. This new unit CDSPS #8, is expected to be commissioned in the fourth quarter and while this will help to improve reliability and efficiency, it will also ensure that we maintain our statutory obligation for reserve capacity.

System Control

The Department's purview is the safe and economic operation of LUCELEC's power grid. To this end, the Department coordinated day to day activities with the Generation and Transmission and Distribution Departments, to ensure that all work carried out on the transmission and distribution network was conducted safely and available generation was utilized as efficiently as possible.

System voltages and frequency were managed well within the statutory requirements, thus further ensuring that operating efficiencies and system stability were maintained. System Control Department operational staff also ensured that when any unplanned outages occurred, disruptions to customers were minimized. This is evidenced by the improvement in our system reliability.

Due to the mission-critical nature of the Supervisory Control and Data Acquistion (SCADA) system, a third server was added during the year to increase the level of redundancy of this system. The Department's human resources were also bolstered with the recruitment of an additional System Control Operator whose training is ongoing.

Future Outlook

In 2007 the Department will continue to focus on the safe and economic operation of the power grid. In addition the Department will also be responsible for managing the implementation of the Distribution Automation (D.A.) system which will play a pivotal role in ensuring continuing improvements in System reliability well into the future.

Transmission & Distriubtion

The Transmission and Distrubtion Department had a relatively successful year primarily due to the effective management of its various work programmes.

Major works associated with 11kV line upgrades and refurbishing were completed in various parts of the island. This included works in Gros Islet, Beausejour, Deglos to Trois Piton, Praslin to Micoud, Moule a Chique, Augier, Fond St. Jacques, and Choiseul to Soufriere. As a result, the reliability of supply to all of these areas and, in some cases, the immediate environs has improved.

A number of one to three pole line extensions were constructed to facilitate new installations throughout the island.

Some 1500 street lights were installed island wide to improve lighting to various communities.

At the substations a number of the older 48 Volt DC supplies and 110 Volt chargers were replaced to ensure that the protection and SCADA systems continued to operate at optimum levels.

The third phase of a feeder monitoring programme was completed. This exercise allows T&D to monitor activities on the 11kV feeders by interrogating meters. In the longer term this programme along with the installation of new electronic meters and GIS will aid in reducing system losses.

Through the joint effort of a number of the Technical Departments, system reliability improved by over 13%, and for the first time the T&D Department was able to bring the average response time for minor faults down to 75 minutes.

While the Safety Performance Assessment will be completed in January 2007, it is fair to report that there has been an improvement in the performance of the Department as it relates to the number of reportable injury accidents and near misses for the year.

Future Outlook

In 2007 the Department will focus on enhancing the maintenance programme to ensure improved system inspections, better management of, and quicker responses to customer requests and complaints through the provision of additional human resources. The capital programme will make provision for the complete replacement of now obsolete 66 kV circuit breakers at a number of the substations, as well as approximately 4000 old electromechanical meters which have reached the end of their useful life. Newer electronic meters are less prone to tampering and also facilitate the move towards new meter reading technologies.

The planned upgrade of the VHF radio system will also be completed in 2007. This will enhance our operations in the field.

Planning

As part of the System Development Plan, the Protection Coordination Study of the 66kV network was completed. All the recommendations were implemented to ensure the timely operation of protective relays under fault condition, and to eliminate nuisance operation.

The trend of lower than anticipated sales in the last quarter of 2005 continued into the first quarter of 2006 and this necessitated a review of the sales forecast. Subsequently, a detailed 15 year forecast completed during the second quarter of 2006 revealed the following.

- Domestic sales are projected to increase at a compound growth rate of 2.25%.
- Commercial sales are projected to increase at a compound growth rate of 3.89%.
- Hotel sales are projected to increase at a compound growth rate of 3.60%

- Industrial sales are projected to increase at a compound growth rate of 7.49%
- Street lighting is projected to grow at a compound growth rate of 3.25%

A contract for the upgrade of Union and Vieux Fort Substations was awarded to Pauwels of Belgium. Based on the contribution of Union substation to the reliability of the supply to the north and the City of Castries, a decision was taken to complete Union Substation prior to Cricket World Cup (CWC) 2007. By year end it was estimated that both transformers would be commissioned by end February 2007.

As part of the development of a Geographic Information System (GIS), network connectivity for nine 11kV circuits had been completed, six out of Reduit and three out of Castries substation. GIS maps have been deployed to engineers in the Planning and T&D Departments to allow users to interact with the Arc Reader programme, thereby improving on the availability of network data. The GIS also allows planning staff to track all changes made on the network in the areas where structures have been geo-referenced and labelled.

The most significant achievement for the Laboratory Services Section this year was the expansion and subsequent re-organization of the Chemical Shed.

With the recruitment of the Lands and Survey Officer in July 2006, efforts at resolving the many outstanding wayleave issues were intensified with significant success. The Deed of Grant of Right of Wayleave is now the primary instrument being utilized by the Department to obtain easements for the Company's transmission line infrastructure.

The Distribution Planning section was stretched this year with a number of requests from developers for major line extensions. The construction sector in the country has never been so buoyant in recent history, but the section was still able to keep up with these demands and provide developers with the cost information associated with the electrical infrastructural works.

Future Outlook

The 2007 Capital Work programme makes provision for completing a number of projects started in 2006. These include the upgrades at Union and Vieux Fort substations, and the installation of a section of underground cable from Union substation to Choc Estate. Of critical importance is finalizing all land negotiations for the commencement of the wind power project.

Some of the new initiatives include acquiring land in the Bocage area for a substation to support developments in the north east Castries area. Due to the long planning horizon that is necessary in our type of business a Generation and Transmission study will be undertaken to ascertain our future needs in these areas for the next 10 to 15 years.

The GIS work programme for 2007 will cover the labeling and data verification of 15,000 poles on the island, and completion of connectivity of circuits for all feeders in these areas. The goal for 2007 is to put systems in place to maintain the accuracy and security of data, while extending the availability of this data to staff on a needs basis. End user applications will be extended to the T&D and Customer Service Departments in order to improve equipment maintenance and enhance the processing of customer requests and complaints.

Customer Service

The year 2006 continued to be a challenging one for the Customer Service Department. In the face of the consistently increasing demands and expectations from LUCELEC's customers, staff demonstrated their commitment and dedication to deliver a high standard of service. The most pressing concern of customers continued to be the cost of electricity. This was largely attributed to the 12.7% increase in the average price of fuel per gallon over 2005. Despite the concerted efforts made to educate customers on matters related to the billing issues, the components of electricity cost and energy conservation, many customers still held the view that more could be done by the Company to keep costs as low as possible. The Customer Service Department will therefore ensure that its public relations and customer education efforts will be sustained and enhanced in the coming years in order to address this concern.

The Department worked very closely with its local public relations associate to execute the 2006 public relations plan. The key objectives were projecting Lucelec as a good corporate citizen and engendering a positive atmosphere among customers about Lucelec and its commitment to provide quality service. The efforts certainly contributed to the performance of 78.5% in the annual customer satisfaction survey, which represents a 10.6% improvement in the overall score, when compared to 2005.

Other achievements of the Department include the reduction in the age of customer debt to more acceptable levels. At the end of the year this reduction amounted to $12.0M.

An increased level of business activity was recorded at our satellite offices and staff at these locations demonstrated their readiness and competence to accept the challenges presented. On-line bill payment is now available to customers via a local bank and this service will become available at another in the very near future.

In pursuit of the goal to establish a Call Centre, two Clerks were recruited and trained during the second half of 2006 to perform related duties. Manpower in this section will be increased in 2007 to allow the Call Centre to become fully functional. A large percentage of customers now receive telephone reminders which advise of due dates for bill payment. This initiative serves the dual purpose of providing good customer service as well as reducing the costs associated with disconnection for non-payment.

The satellite offices at Rodney Bay, Soufriere and Vieux Fort continued to deliver a high level of service to customers in those areas and plans are afoot to upgrade the physical facilities and to meet the other service expectations of customers in 2007.

The Customer Service Department looks forward to improving its performance in all areas in 2007. The focus will continue to remain on enhancements in customer service delivery.

Future Outlook

The Department will vigorously pursue its goal to improve the Company's relationship with its customers and the general public. Through the execution of public relations campaigns and community outreach and support programmes, it is hoped that customers' perceptions of the service we provide will more closely approach their own expectations. The Company will embrace the opportunities which Cricket World Cup 2007 provides to display our preparedness to meet mounting challenges and satisfy customers' demand for a reliable power supply.

Prepaid metering will be introduced as early as 2007 on a phased basis. This metering technology will be offered initially to customers who rent out their properties. The wider acceptance of this technology will assist the Company in the areas of debt, revenue collection, reduction in the costs associated with meter reading and billing, and significantly reduce administration and maintenance costs in the Customer Service Department.

The commencement of Call Centre operations is also scheduled for 2007 with a view to further improving the Company's interface with its customers.

Building Services

During the year the Building Services Section performed reasonably well, ensuring that all the Company's properties were maintained to the highest standards. The extensive modifications to the Chemical Storage Shed were completed, thus ensuring that the various chemicals in use by the Company were handled more effectively. Other capital works carried out included the reinforcement of the Reduit Substation roof to prevent the recurrence of an earlier incident of water falling onto switchgear panels.

A Building Technician recruited in November 2005 has provided valuable assistance to the Building Services Supervisor (BSS) and this has impacted the section positively.

Future Outlook

Apart from the routine maintenance activities, the section will focus on improving the archiving facilities and refurbishing the canteen at Cul De Sac.

Information Services

2006 proved to be a very challenging and involved year for the Information Systems (IS) Department. Most of the planned routine tasks were commenced early in anticipation of hectic third and fourth quarters. Some of the routine tasks included training for the IS staff in reinforcing basic database server management concepts, that would be required in the application of the new financial software scheduled for implementation later in the year.

Other tasks focused on improving reliability and access speeds for various parts of the network. The first system benefiting from this reliability improvement was the Kronos time and attendance system which provides attendance records for hourly paid employees. Also benefiting from upgrades were backup server systems, ensuring improved system stability. This was followed by the deployment of multifunction copier/scanners systems around the Company providing simple scanning and facilitating electronic storage.

These early tasks allowed for the balance of the year to be focused primarily on assisting in the implementation of the new JD Edwards (JDE) Enterprise Resource Planning Software. The implementation of the financial application got underway towards the end of the first quarter with training in areas of the application such as report writing, payroll, configuration and setup. This extended through much of the year with most key areas now completed and utilized.

Future Outlook

The year 2007 will come with a new set of goals and challenges. For the IS Department the primary focus for the year will be the streamlining of the existing infrastructure, by making it more robust and reliable. It will therefore be necessary to implement various management tools and provide further training for members of the IS Department in key areas.

Projects for the year will include the consolidation of event log management to more proactively monitor multiple systems. Additional efforts will be directed at incorporating improved recovery techniques to minimize potential downtime should a disaster scenario arise. Also on the agenda next year is an improvement in the software deployment techniques to the many users located at the various Company sites and a review of storage and archiving options.

The Department will continue to promote efficiencies utilizing available technology options in order to do its part in ensuring the continued growth of the Company.

Human Resources

2006 was exciting and challenging for the Human Resources Department as a number of critical assignments were undertaken and completed. The Department's staff received significant on the job training in order to prepare them to meet the expectations of its key stakeholders namely staff, other Departments of the Company and Senior Management. At the end of the year there were 229 permanent employees.

The Department made significant strides in the area of safety. With the position of Health, Safety, Environment & Security Supervisor being filled early in 2006, a number of projects were given due attention namely the introduction of the safety rules to all staff, the re-commencement of work on the Work Protection Code, the Safety Passport and Safety Month. A new Health & Safety Committee was formed and representatives played a key role in Carilec's annual Health & Safety conference. Inspections at all Company locations were conducted as planned. Quarterly Diabetes & Hypertension testing continued for all employees and training in key areas such as Accident Investigation, First Aid, Fire Prevention and HIV/Aids was conducted. The safety audit results were positive at 96.3% and the safety passport programme was implemented at year end. Unfortunately, there were three lost time accidents during the year involving two contractors employees and one staff member. The importance of security enforcement at all Company locations was brought to the fore during the year. The capabilities of various firms were assessed and one was chosen to deliver in this critical area. By the end of the year, significant improvements in security had been made by the Company.

In the area of training and development, training needs analyses were conducted for groups of employees in the Technical Departments and career development charts were developed for most areas of the Company and were being further reviewed at year end. Courses were conducted for management staff in order to develop their skills and knowledge in key areas such as Leadership (Dale Carnegie) and Corporate Governance. Trainee management staff in the Human Resources, Accounts and Transmission & Distribution Departments continued on their extended training programmes which form a key part of their management development. Workshops in key areas such as customer service and scaffold erection were also conducted for contractors.

In the area of benefits, work continued on the Compensation & Benefits study and the final report was received from the Consultant. At the end of the year, recommendations were being considered on the way forward. Improvements were made to the scholarship scheme as the Company hosted the first ever "Scholarship Students Social" and held meetings with over thirty (30) scholarship holders and their parents in order to establish a closer "mentoring" relationship with the students. Arrangements for new uniforms for all staff were well underway by year end, in order to ensure their issue by the first working week of 2007, another achievement for the Department. Meetings of the pension scheme trustees were held in March, June and July and the trustees all received training geared towards the important role that they play in this area. A Pension Scheme Amalgamation Task Force was created and met to discuss the possible merger of the Company's three pension schemes during the year. Work on this is continuing. A successful staff appreciation awards and dinner evening was held early in 2006 and the Company also held its first ever Christmas party for children of employees in December. Payments for the Performance Based Incentive Plan (PBIP) were finalised and the Department lent support in terms of critical resources to meet the requirements of the new software that was installed across the Company.

In terms of information sharing and communication, newsletter distribution times improved as the Department continued to report on noteworthy areas across all areas of the Company. Improvements were also in progress for the Company's library computer system. A new telephone monitoring system was acquired and was fully functional during the first quarter and new arrangements were made to enhance communication with the technical staff in the Trouble Call Department.

Although responses to the Union's proposals for a new Collective Agreement for the period 1st January 2006 to 31st December 2007 were sent out early in 2006, negotiations only commenced in July and were still in progress at year end.

In terms of Senior Staff appointments, a new Financial Controller assumed duties on 1st June 2006 replacing the previous FC who completed his contract at the end of May. The position of

General Counsel/Company Secretary was also created and filled with effect from 1st May.

Future Outlook

At the end of the year, the Department was focused on plans for 2007 as it prepared itself to meet even more challenges ahead. A human resource strategic plan was being developed which would outline the Company's strategies to continue to fulfil its mandate and to retain and develop its employees to the fullest. Plans were in place to implement the recommendations of the Compensation & Benefits Study as a first step towards ensuring that the Company's most important asset would be adequately compensated and prepared to deliver on the challenges ahead. The Department would also continue to exert its best efforts to conclude negotiations for the new Collective Agreement.

Financial Operations

Sales & Revenues

Unit sales for the year were 284.4 million kWh, an increase of 2.5% over 2005. Sales growth was recorded in all segments ranging from 1% in the Hotel sector to 4% in the Industrial sector. The rate of growth was lower than in the recent past and reflected a virtually saturated domestic sector, lower than expected visitor arrivals to the island in the Hotel sector, and conservation measures adopted by customers in all market segments. There was increased construction activity in the latter part of the year in preparation for ICC Cricket World Cup (CWC) 2007 and it is expected that the full impact will be realized around the second quarter of 2007.

Total revenues increased from EC$203.1m to EC$227.8m. This increase reflects the new tariff structure, which was introduced in April 2006 and includes three months of the old mechanism with a lower fuel component and nine months of the new mechanism with a higher fuel component leading to higher revenues. The new tariff was implemented following an amendment to the Electricity Supply Act No. 10 of 1994. Under this new tariff structure the basic tariff now reflects a more current fuel price, significantly reducing the Fuel Surcharge component and there is also a mechanism for the regular review of the basic tariff rate to reflect changing market conditions. More details on the amendments are provided in the Regulatory section. Gross income declined slightly to EC$62.9m and 27.6% of total sales revenue (2005 – EC$63.2m and 31.1%), reflecting the increased fuel prices.

Operating Costs

Rising fuel prices during most of the year posed the greatest challenge to the Company and although these were declining during the latter part of the year, the average price per gallon of fuel delivered to the Company in 2006 was EC$6.5358. This represented an increase of 12.7% over the average price per gallon in 2005 and fuel costs comprised 72.4% of Operating Costs for the year. The increase in diesel generating costs are directly associated with the greater portion of the fuel cost being reflected in the base rate and less in the fuel surcharge. There was a reduction in specific generation maintenance costs, largely reflecting a change in accounting policy relating to generator overhauls. (See Note 2(f) to the financial statements). Transmission and Distribution costs increased by 4.7% and reflected activity on the network to improve the quality of supply and to reduce network losses.

Administrative expenses were 1% above the 2005 figure after the latter was adjusted to exclude the one-off items - EC$2.5m for the LUCELEC Trust Company Inc and the 40th Anniversary celebrations. This increase was attributed to the net effect of higher payroll and depreciation costs, offset by the recovery of the previous bad debt provision against the account of a long outstanding debt which was settled in full.

Interest costs increased by EC$1.2M due to lower capitalizations as Unit #9 had come into service in 2005.

Profit

Profit before Tax was EC$35.6M, an improvement of 8.5% over the previous year and 15.6% of total sales revenue compared to 16.1% in 2005. Net profit at EC$27.0m, was a 5.0% improvement of over the previous year's EC$25.7m (as restated). The effective tax rate increased from 21.6% in 2005 to 24.1%, reflecting a reversal of the favourable deferred tax benefits of the previous year.

Earnings per share increased by 5.0% from EC$2.19 in 2005 to EC$2.30 while dividends increased by 6% to EC$1.42 per share. The Company's return on average equity declined slightly from 20.8% in 2005 to 20.7%. In accordance with the amendments to the Electricity Supply Act in 2006, an amount of EC$3.1M has been set aside out of Net profit for distribution to Hotel and Industrial customers during 2007. This represents 50% of the profit in excess of the "Allowable Rate of Return" as computed under the provisions of the amendments to the Act. This distribution may also be applicable to "consumers in need of special protection" but is dependent upon the issue of an Order by the Minister.

Capital Expenditure

Capital expenditure during the year amounted to EC$26.1m and comprised mainly of costs relating to the new Generator #8, and Transmission and Distribution improvements. Loan financing draw downs amounting to EC$16.3m were obtained for the year mainly in respect of Generating Unit #8.

Taxation

After many discussions with the Government, the matter of withholding taxes on insurance premiums paid to non-resident companies was finally settled. The Government maintained its position that the Company is liable for the taxes and the applicable interest and penalties in the amount of EC$9.5m in respect of the financial years 2001 to 2005. The Company however obtained a waiver on the withholding taxes with effect from 1st January, 2006 considering its inability to obtain local coverage and the difficulties in obtaining reasonable rates in the external market. Additionally, the Government also agreed that all amounts owing by one of its wholly owned Corporations would be offset against the total amounts due to it. The amount outstanding at December 31, 2006 was EC$7.3m and had been outstanding for many years. Taking the 2006 taxes into account the Company was owed an amount of EC$2.7m at the end of the financial year.
Agreement was reached with the Inland Revenue Department to fully settle all issues in March, 2007.

Debt Management

This received renewed focus during the year and new plans were set in place to manage and reduce debt levels while at the same time recognizing the Company's obligation to treat customers in a respectful and professional manner. A new measure was adopted for debt measurement – Days Sales Outstanding (DSO) which equates debt to the number of days of average sales that this represents, thereby indicating the level of credit being extended to customers.

In the second half of the year DSO was reduced from 55 to 42 days due primarily to a significant reduction of EC$12.6M in gross Trade debtors from Government and quasi-Government institutions.

Future Outlook

Current projections indicate demand for electricity will remain fairly low with a temporary peak during the ICC Cricket World Cup (CWC) which will be held from the middle of March to the end of April, 2007.

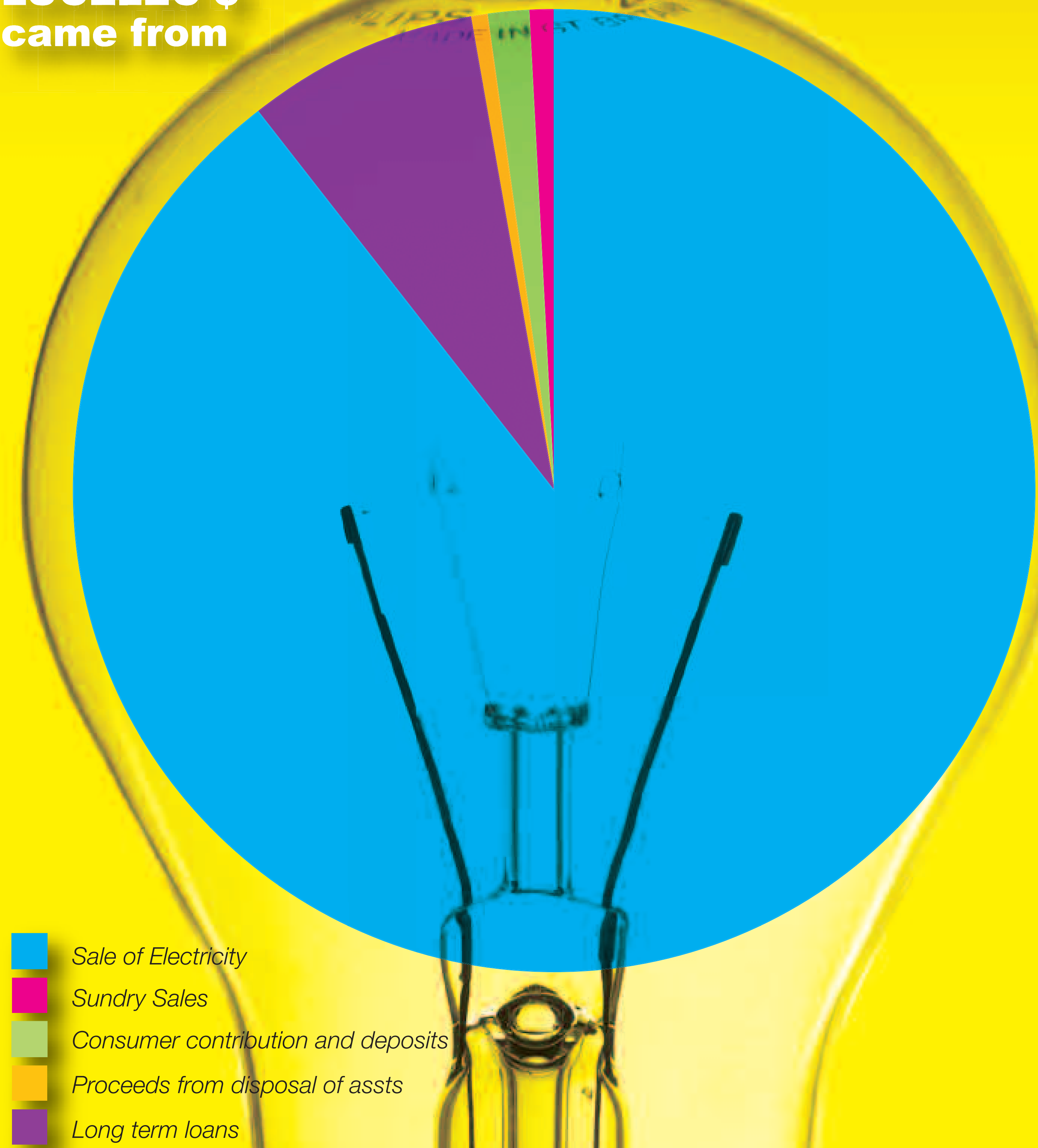
After some delays and technical difficulties the new integrated Management Information system is expected to be fully operational during the new financial year.

Financial Highlights

	2006 EC$ 000	2005 EC$ 000
Financial Statistics		
Capital Investment	**26,108**	27,200
Operating Revenue	**227,753**	203,143
Fuel Surcharge Costs	**34,712**	89,170
Interest Expense	**7,249**	6,074
Net Profit after Taxation	**26,997**	25,702
Ordinary Dividend Declared	**16,642**	15,715
Return on Rate Base	**18.91%**	19.67%
Earnings per Share (EC$)	**2.30**	2.19
Ordinary Dividend per Share (EC$)	**1.42**	1.34
Ordinary Dividend as % of Net Profit after Tax	**62%**	61%
Debt/Equity Ratio	**43/57**	43/57
Operating Statistics		
Sales (MWh)	**284,398**	277,399
Customers	**54,509**	53,002
Peak Demand (MW)	**49.8**	49.2
Available Capacity (MW)	**65.8**	65.8

Simplified Financial Statements

Where the LUCELEC $ came from

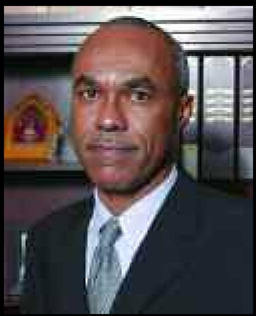


How the **LUCELEC $** was spent

Our Powerful People →

Management & Staff

Management Team



Earl Estrado

Gillian French

Gennifer Faisal

Wynn Alexander

Cathy-Ann Wright-Auguste

Management Team

Trevor Louisy
B.Sc. Electrical Engineering
Manging Director

Earl Estrado
CGA
Financial Controller

Victor Emmanuel
B.Sc. Electrical Engineering, M.Sc. Information Systems Engineering
Chief Engineer

Cathy-Ann Wright-Auguste
B.Sc. Accounts, CGA, FCIS
Internal Auditor

Wynn Alexander
B.Sc. Computer Science, M.Eng, Diploma Financial Management
Information Systems Manager

Goodwin d'Auvergne
B.Sc. Electrical Engineering
System Control Engineer

Francis Daniel
B.Sc. Electrical Engineering
Planning Manager

Nicole Duboulay
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Human Resource Manager

Gennifer Faisal
FCCA
Chief Accountant

Jennifa Flood-George
B.Sc. Management Studies/Psychology
Customer Service Manager

Jevon Nathaniel
B.Sc. Electrical Engineering, M.Sc. Computer Science
Generation Engineer

Gilroy Pultie
B.Sc. Electrical Engineering
Transmission & Distribution Engineer

Gillian French
LLB (Hons), LEC
General Counsel/Company Secretary

Customer Service

The Customer Service Department is responsible for the Company's services to customers such as meter reading, customer account billing, processing of requests for new electricity services, payment collection for electricity consumption and other miscellaneous items. The Department is the central point for receipt of requests and queries on general matters related to electricity supply. The key operating sections of the Department are Meter Reading & Billing, Debt Control, Customer Service and Cash Receipts. Responsibility for the Company's public relations currently resides with the Customer Service Department.

The Department seeks to provide a service that is efficient, courteous and responsive to the needs of customers. The customer service team is comprised of thirty-six (36) employees, dispersed across four office locations around the island – Sans Soucis, Rodney Bay, Vieux Fort and Soufriere. Customers can generally access the same services at all customer service offices. The Department is headed by the Customer Service Manager. Other members of the team are the Assistant Customer Service Manager, Senior Customer Service Supervisor, four Supervisors, five Trainee Supervisors and twenty-four General Clerks.

System Control

The System Control Department plays a significant role in Lucelec's technical operations. The Department is responsible for load dispatch which simply put is to ensure that an adequate number of generators is available to meet System load demand at all times while ensuring efficient usage of fuel. Load dispatch is performed in conjunction with the Generation Department. System Control staff also ensure that all work on the Transmission and Distribution System is conducted in accordance with Lucelec safety regulations.

The System Control Centre at Cul de Sac is manned on a twenty-four hour basis and operates with a staff complement of thirteen persons. The staff consists of one (1) System Control Engineer who is responsible for the overall management of the Department and six (6) System Control Operators (SCOs) who work on eight hour shifts. Five (5) Trouble Call Operators (TCOs) also work on shift and serve as the interface to customers who are experiencing difficulties with their electricity supply and a technical clerk who is responsible for data entry and compilation of reports.

Planning

The Planning and Projects Department was created in late 1997. During its embryonic stage the Department comprised two sections, namely System Planning and Protection and Communication. As part of the restructuring exercise during the latter part of 2002, the Department was renamed to focus on planning. The Planning Department comprises of the Laboratory, Distribution Planning, Lands and Survey, and Geographic Information System Sections. The Department is focussed on managing strategy in order to address competition, technological changes and possible de-regulation.

The vision of the Planning Department is to achieve improvements in system reliability and quality of supply using modern practices leading to excellent customer service at the lowest cost possible. This vision is being realized through 10 highly competent and reliable staff. They include the Planning Manager, System Planning Engineer, Assistant Planning Engineer, Distribution Planning Engineer, GIS Supervisor, Lands and Survey Officer, Laboratory Technician, Draughtsman and two Linemen.

Transmission and Distribution

The Transmission and Distribution Department is involved in erecting and maintaining the infrastructure involved in taking electricity from the generating plant to the customer as well as in the metering of electricity consumption. The infrastructure involved comprises substations which step up and step down voltage to allow the efficient transportation of electricity, 66,000 volt transmission lines which are used to transport electricity to various parts of the island (substations) in bulk, and 11,000/240 volt distribution lines and transformers to which Lucelec's customers are connected.

The Department comprises of 59 employees inclusive of 6 engineers and 16 supervisors. T&D as it is familiarly called is made up of five sections namely Substation, Protection and Communications, Line Maintenance, Construction, Customer Service and the Metering Section. Each section is headed by an Engineer all of whom report to the Transmission and Distribution Manager. Apart from the Substation, Protection and Communications and Metering sections most of the work undertaken is through sub-contractors.

Human Resources

Lucelec's Human Resources Department has as its mandate to ensure the most effective use of the Company's human resources, to provide every employee with a career goal, and to ensure a safe and secure work environment. The Department is staffed by nine persons and comprises three primary sections – Training, Benefits and Safety. The Human Resources team is responsible for the following key areas – recruitment and selection, salary and benefits administration, career and manpower planning, Human Resources information systems, industrial relations, safety, security, training and development, and coordination of staff events. During the first part of 2006, the Department was also responsible for the Company's public relations initiatives, donations and sponsorships. The results of the work of the Human Resources Department are far reaching as the Department's responsibilities span across all Departments of the Company and directly affect its entire staff. Service and support remain the key areas of focus as the team continues to build the Company's most important asset.

Finance and Accounts

The Finance and Accounts Department has a complement of 19 persons spread across three sections namely the Accounts, Purchasing and Stores Sections. It comprises a Financial Controller who is the Head of Department, a Chief Accountant, two Assistant Accountants, Purchasing Manager (Ag.), Stores Manager (Ag.), a Trainee Accountant, a Senior Accounts Supervisor, a Senior Administrative Assistant, an Account Supervisor, two Trainee Supervisors, three Accounts Clerks, two Purchasing Clerks and two Stores Clerks.

The Department is responsible for capturing and producing financial information for internal management use and for external agencies, authorities and the external Auditors. The Department is also responsible for acquiring the Company's materials and services in a timely, effective and efficient manner.

Materials purchased are under the control of the Stores Department which ensures their safekeeping and the integrity of the underlying records. They ensure that materials are available when and where the Company needs them in order to meet its obligations to customers.

Building Services

The section comprises of ten persons namely the Building Services Supervisor, the Building Technician, three Artisans responsible for air conditioning, carpentry, masonry and electrical, three Handy Men and two Cleaners. Together this team is responsible for the general maintenance and up keep of all Lucelec's buildings and compounds. The general maintenance includes carpentry, electrical, plumbing, painting, masonry, civil and building construction, housekeeping and landscaping. The section's primary responsibility is to ensure that the public and staff have a safe and comfortable working environment.

Corporate Services

The Corporate Services Department houses the office of the General Counsel who also functions as the Company Secretary. The position of General Counsel was established in 2006 and provides internal legal advice to the Company on a variety of issues. In the provision of corporate services the Company Secretary is responsible for the timely filing of Company documents at the Registry of Companies and Intellectual Property and the Eastern Caribbean Regulatory Commission and is the liaison between the Company and its shareholders as well as between the Board of Directors and the Company.

Technical Audit

The Technical Audit Section consists of the Technical Auditor. The section conducts independent assessments of the operations of the Departments of Planning, Transmission & Distribution, Generation, System Control and Building Services. The results of these assessments are used as a guide to spur increased efficiency of their operations.

Internal Audit

The Internal Audit Department, consisting of the Internal Auditor, was established by Lucelec as a service to the Company. Its main function is to examine and evaluate the Company's activities within the scope dictated by the Audit Committee of the Board of Directors. The work of the Department includes financial, compliance and operational reviews by means of systematic, objective appraisals of the operations and controls, with an emphasis on assisting the Management and Board of Directors in the discharge of their duties.

The Managing Director's Office

The Managing Director provides the overall leadership of the Company. This is achieved through the development and implementation of business plans for the short, medium and long term, with a view to ensuring the efficient and effective operation of the Company. The Company's commitment to provide a safe and reliable service whilst meeting the expectations of shareholders and delivering value to its customers, employees and other interests is the primary focus of the office of the Managing Director.

The Managing Director is assisted in this process by the Financial Controller, Chief Engineer and ten Department Heads. A Senior Administrative Assistant manages the day to day activities of his office. The efforts of the Administrative Assistant are complemented by three support staff who ensure that various services are provided to his office, other departments of the Company and business interests locally and overseas.

Technical Division

The Chief Engineer heads the Technical Division of the Company. The sphere of the operations includes Generation, Transmission & Distribution, System Control, Planning, Technical Audits and Building Services. The primary function of the office of the Chief Engineer is to coordinate the activities of all the technical departments including the responsibility for financial and manpower planning. The staff complement in the Division totals 152 which includes 14 engineers. The Chief Engineer's office comprises two persons namely the Chief Engineer and the Senior Administrative Assistant.

Generation

The Generation Department is directly responsible for the production of electricity. The Department is comprised of two main sections - Maintenance and Operations which also includes the Garage. The Maintenance Section provides the service of ensuring that all generating plant is in good working condition by regularly maintaining the equipment. The Operations Section utilizes the generating plant to provide the required power of the nation and Garage services are responsible for the maintenance of the Company's fleet of vehicles. With these sections working in harmony, the Department provides a reliable and efficient supply of power. The people behind the scenes include skilled mechanics, electricians, supervisors and managers who work cooperatively as a team to achieve their goals.

Information Systems

The Information Systems Department has the responsibility of overseeing the Information Technology infrastructure and its development throughout the Company. From customer service systems which facilitate billing enquiry to information sharing, the suite of available applications goes through a continuous process of evaluation, deployment and maintenance using best practices. With over 50 years of combined experience, the small five member team plays a unique role, serving the internal customer base of over 150 users. Security, availability and ease of use are all underlying themes in the Department's daily activity.

Financial Statements

KPMG

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INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of St. Lucia Electricity Services Limited (the Company), which comprise the balance sheet as at December 31, 2006, and the statements of changes in equity, income, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and consistently applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements, which have been prepared in accordance with International Financial Reporting Standards, present fairly, in all material respects, the financial position of the Company as at December 31, 2006, and of the Company's financial performance, changes in equity and cash flows for the year then ended.

KPMG

Chartered Accountants
Castries, St. Lucia
March 2, 2007

	Notes	2006	2005
Assets			
Current			
Cash and cash equivalents	5	$ 2,132,324	23,977
Trade and other receivables	6	34,317,383	48,332,868
Income tax refundable		2,729,295	-
Inventories	7	15,280,865	11,643,430
		54,459,867	60,000,275
Non-Current			
Available-for-sale financial asset	8	2,687,429	1,960,583
Retirement benefit asset	9	2,850,000	2,637,000
Property, plant and equipment	10	278,501,545	277,169,483
		$ 338,498,841	341,767,341
Liabilities			
Current			
Borrowings	11	$ 25,452,922	15,657,552
Trade and other payables	12	21,185,050	32,660,199
Income tax payable		-	3,560,944
Dividends payable		10,906,762	14,746,037
		57,544,734	66,624,732
Non-Current			
Borrowings	11	81,359,956	84,915,645
Consumer deposits	13	10,307,503	9,978,832
Deferred tax liabilities	14	29,864,038	29,724,018
Consumer contributions	15	22,477,526	21,695,445
		201,553,757	212,938,672
Shareholders' equity			
Share capital	16	80,162,792	80,162,792
Retained earnings		53,932,292	46,028,877
		134,095,084	126,191,669
Retirement benefit reserve	9	2,850,000	2,637,000
Total shareholders' equity		136,945,084	128,828,669
Total equity and liabilities		$ 338,498,841	341,767,341

Approved by

__________ Director   __________ Director

See accompanying notes to the financial statements

	Notes	Stated Capital	Retirement Benefit Reserve	Tariff Reduction Reserve	Retained Earnings	Total
Balance at December 31, 2004 as previously reported		$ 80,162,792	2,395,000	-	49,080,702	131,638,494
Prior year adjustment	18				(8,240,240)	(8,240,240)
Balance at December 31, 2004 as restated		80,162,792	2,395,000		40,840,462	123,398,254
Profit for the year		-	-	-	25,701,660	25,701,660
Transfer to retirement benefit reserve		-	242,000	-	(242,000)	-
Transfer to tariff reduction reserve	17	-	-	4,556,783	(4,556,783)	-
Ordinary dividends	19	-	-	-	(15,714,462)	(15,714,462)
Balance at December 31, 2005		80,162,792	2,637,000	4,556,783	46,028,877	133,385,452
Profit for the year		-	-	-	26,996,759	26,996,759
Transfer to retirement benefit reserve		-	213,000	-	(213,000)	-
Transfer of tariff reduction rebate	17	-	-		(3,087,353)	(3,087,353)
Transfer from tariff reduction reserve	17	-	-	(4,556,783)	457,125	(4,099,658)
Overprovision of 2005 dividends					392,284	392,284
Ordinary dividends	19	-	-	-	(16,642,400)	(16,642,400)
Balance at December 31, 2006		$ 80,162,792	2,850,000	-	53,932,292	136,945,084

See accompanying notes to the financial statements

	Notes		2006	2005
Revenue				
Energy sales		$	191,729,844	113,334,110
Fuel surcharge recovered			34,962,415	88,960,739
Other revenue			1,060,984	848,591
			227,753,243	203,143,440
Operating expenses				
Diesel generation			102,386,164	24,237,909
Transmission and distribution			27,800,390	26,547,393
Fuel surcharge			34,712,358	89,169,664
			164,898,912	139,954,966
Gross income			62,854,331	63,188,474
Administrative expenses			(20,526,088)	(24,297,914)
Operating profit			42,328,243	38,890,560
Other gains/(losses), net	20		503,355	(31,804)
Profit before finance costs and taxation			42,831,598	38,858,756
Finance costs			(7,249,036)	(6,074,337)
Profit before taxation			35,582,562	32,784,419
Taxation	21		(8,585,803)	(7,082,759)
Net profit for the year		$	26,996,759	25,701,660
Earnings per share	22	$	2.30	2.19

See accompanying notes to the financial statements

		2006	2005
Cash flows from operating activities			
Profit before taxation	$	35,582,562	32,784,419
Adjustments for:			
Depreciation		24,763,021	23,884,783
Finance costs		7,249,036	6,074,337
Gain on disposal of property, plant and equipment		(513,813)	(83,964)
Amortisation of consumer contributions		(1,657,575)	(1,693,828)
Pension benefits		(213,000)	(242,000)
Operating profit before working capital changes		65,210,231	60,723,747
Increase/(decrease) in trade and other receivables		14,015,485	(8,699,068)
Increase in inventories		(3,637,435)	(732,312)
(Decrease)/increase in trade and other payables		(6,918,366)	7,096,389
Cash generated from operations		68,669,915	58,388,756
Interest paid		(7,249,038)	(6,116,568)
Income tax paid		(14,736,020)	(10,343,185)
Net cash inflow from operating activities		46,684,857	41,929,003
Cash flows from investing activities			
Purchase of available for sale financial asset		(726,846)	(694,947)
Purchase of plant, plant and equipment		(26,108,070)	(27,199,569)
Proceeds on disposal of plant and equipment		526,800	91,681
Net cash used in investing activities		(26,308,116)	(27,802,835)
Cash flows from financing activities			
Proceeds from borrowings		19,871,034	11,907,114
Repayment of borrowings		(13,631,353)	(14,441,798)
Dividends paid		(20,089,391)	(17,810,772)
Decrease in tariff reduction reserve		(4,099,658)	-
Transfer of tariff reduction rebate		(3,087,353)	-
Consumer contributions received		2,439,656	1,268,959
Consumer deposits received net		328,671	641,424
Net cash used in financing activities		(18,268,394)	(18,435,073)
Net increase/(decrease) in cash and cash equivalents		2,108,347	(4,308,905)
Cash and cash equivalents at beginning of year		23,977	4,332,882
Cash and cash equivalents at end of year	$	2,132,324	23,977

See accompanying notes to the financial statements

1. *Company Status*

St. Lucia Electricity Services Limited (the Company) was incorporated under the laws of St. Lucia on November 9, 1964 and re-registered as a public company on August 11, 1994. The Company was also re-registered under the Companies Act of St. Lucia on October 22, 1997. The Company operates under the Electricity Supply Act, 1994 (as amended), and has an exclusive licence for the exercise and performance of functions relating to the supply of electricity in St.Lucia. The Company is listed on the Eastern Caribbean Securities Exchange. The Company's registered office is situated at Sans Soucis, John Compton Highway, Castries, St. Lucia.

The financial statements were approved for issue by the directors on March 2, 2007.

2. *Summary of Significant Accounting Policies*

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented and conform in all material respects to International Financial Reporting Standards unless otherwise stated.

(a) Basis of Preparation and Statement of Compliance

The financial statements of St. Lucia Electricity Services Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Standards Board (IASB) and using the historical cost basis, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the accounting period. Although these estimates are based on management's best knowledge of current event and actions, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revenues and accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 4.

(b) Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost and include cash on hand and deposits held with banks.

2. Summary of Significant Accounting Policies (cont'd)

(c) *Dividends*
Dividend disbursements to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which they become a constructive obligation.

(d) *Foreign Currency Translation*

(i) Measurement currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are present in Eastern Caribbean dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into Eastern Caribbean dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities demonstrated in foreign currencies at the balance sheet are translated to Eastern Caribbean dollars at the selling rates ruling at that date. Foreign transaction gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income. Foreign currency monetary items are reported using the exchange rates at the balance sheet date.

(e) *Trade Receivables*
amortised cost less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of income.

Trade receivables, being short term, are not discounted.

(f) *Inventories*
Inventories held for maintenance and capital improvements are stated at the lower of cost, which is determined on the weighted average basis, and replacement cost. Allowance is made for obsolete, slow-moving and damaged goods.

Goods-in-transit are stated at invoiced cost.

2. Summary of Significant Accounting Policies (Cont'd)

(g) *Financial Instruments*

(i) *Classification*

The Company classifies its investments as available-for-sale financial assets. The classification depends on the purpose for which investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(ii) Subsequent to initial recognition, all available-for-sale financial assets are measured at fair value based on quoted prices in active markets. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions.

Any available-for-sale asset that does not have a quoted market price in an active market and where fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

2. Summary of Significant Accounting Policies (Cont'd)

(g) Financial Instruments (cont'd)

(iii) Realised and unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

(iv) All non-trading financial liabilities are measured at cost or amortized cost. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(h) Property, Plant and Equipment

(i) Owned and constructed assets
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items including major spares and standby equipment, costs of regular inspections and employee benefits arising directly from the construction or acquisition of the items.

(ii) Subsequent Expenditure
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

(iii) Depreciation
Land and rights are not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and are available for use. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual lives over their estimated useful lives as follows:

• Building	21/2	- 121/2% per annum
• Plant and machinery	5	- 14% per annum
• Motor vehicles	20	- 331/3% per annum
• Furniture and fittings	10	- 25% per annum
• Computer software and hardware	121/2	- 25% per annum

2. Summary of Significant Accounting Policies (Cont'd)

(h) Property, Plant and Equipment (cont'd)

(iv) Disposal

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of income.

(v) Other

The assets' residual value, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

(i) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of income except to the extent that it relates to items recognised directly into equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

2. Summary of Significant Accounting Policies (Cont'd)

(j) Impairment

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the statement of income.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss in respect of a receivable amount carried at amortised cost is reversed if a subsequent increase in its recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the statement of income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss shall be reversed, with the amount of the reversal recognised in statement of income.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Trade and Other Payables

Liabilities for trade and other payables which are normally settled on 30 – 90 day terms and conditions are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the Company.

(l) Borrowings

Borrowings are recognized initially as the proceeds are received and are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest rate method.

2. Significant Accounting Policies (Cont'd)

(l) Borrowings (Cont'd)

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Consumer Deposits

Given the long-term nature of the customer relationship, customer deposits are shown in the balance sheet as non-current liabilities (i.e. not likely to be repaid within twelve months of the balance sheet date).

(o) Consumer Contributions

In certain specified circumstances, consumers requiring line extensions are required to contribute the estimated capital cost of the extensions. These contributions are amortised over the estimated useful lives of the relevant capital cost at an annual rate of 5%. The annual amortisation of consumer contributions is deducted from the depreciation charge provided in respect of the capital cost of these line extensions. Contributions in excess of the applicable capital cost of line extensions are recorded as other revenue in the period in which they are completed. The capital costs of consumer line extensions are included in property, plant and equipment.

(p) Share Capital

Ordinary shares are classified as equity.

q) Retirement Benefit Reserve

The retirement benefit reserve is a non-distributable reserve. Transfers are made from retained earnings to this reserve to reflect the increase or decrease in the retirement benefit asset (Note 9) in the year.

(r) Revenue Recognition

<u>Sale of energy</u>

Revenue from energy sales is based on meter readings, which are carried out on a rotational basis throughout each month. A provision of approximately 57% of the current month's billings, excluding the fuel surcharge, is made to record unbilled energy sales at the end of each month. This estimate is reviewed periodically to assess reasonableness and adjusted where required. The provision for unbilled sales is included in accrued income.

2. Significant Accounting Policies (Cont'd)

(r) Revenue Recognition (Cont'd)

In addition to the normal tariff rates charged for energy sales, a fuel surcharge is calculated which is based on the difference between the cost of fuel used to generate energy sales in the current month and the average fuel price for the 12 months preceding January of the current year. The surcharge is recovered by applying the month's surcharge rate to units billed in the following month. The provision for unbilled fuel surcharge is included in accrued income.

<u>Interest income</u>

Interest income is recognised on a time-proportion basis using the effective interest method.

(s) Employee Benefits

<u>Pension</u>

The Company operates defined benefit pension schemes, the assets of which are held and administered as follows:

(i)	Grade I employees	-	by the Sagicor Life Inc.
(ii)	Grade II employees	-	by the Colonial Life Insurance company
(iii)	Grade III employees	-	invested by Morgan Grenfell Asset management, administered by the Sagicor Life Inc.

The pension plans are funded by payments from employees and the Company, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is one that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset recognised in the balance sheet in respect of the Grade I and Grade II defined benefit pension plans, is the present value of the defined benefit obligation at the balance sheet date minus the fair value of the plan assets, together with adjustments for unrecognized actuarial gains/losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every three years (Note 9).

The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses are recognised using the "corridor" approach. Any actuarial gains and losses (arising from both defined benefit obligations and any related plan assets) which fall outside of the higher of 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets, is amortised over the estimated future working life of the active workforce.

2. Significant Accounting Policies (Cont'd)

(s) *Employee Benefits (cont'd)*

The Grade III defined benefit plan is a multi-employer scheme. There are five contributing employers; the others are Anguilla Electricity Company Ltd., Montserrat Electricity Services Ltd., St. Lucia Mortgage Finance Company Ltd. and St. Vincent Electricity Services Ltd. Multi-employers schemes pool the assets contributed by the various enterprises that are not under common control, and use the assets to provide benefits to employees of more than one enterprise on the basis that contributed and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned. Due to the unavailability of recent audited financial statements in respect to this plan, the contributions are recognised as an expense when they are due. The Company's share of the related retirement asset/(liability) has not been reflected in the balance sheet.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(t) *New standards and interpretations not yet adopted:*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2006, and have not yet been applied in preparing these financial statements:

- *IFRS 7 Financial Instruments: Disclosure, and the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the company's 2007 financial statements, will require extensive additional disclosures with respect to company's financial instruments and share capital.

- *IFRS 8 Operating Segments* requires segment disclosure based on the components of the company that management monitors in making decisions about operating matters about operating matters as well as qualitative disclosures on segments. Segments will be reportable based on threshold tests related to revenues, results and assets. The statement is not expected to have any impact on the financial statements.

- *IFRIC 7 Applying the Restatement Approach under* IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the company's 2007 financial statements, is not expected to have any impact on the financial statements.

- I*FRIC 8 Scope of IFRS 2 Shared-based Payment* addresses the accounting for share-

2. Significant Accounting Policies (Cont'd)

(t) *New standards and interpretations not yet adopted:*

based payment transactions in which some or all goods or services received cannot be specially identified. IFRIC 8 will become mandatory for the company's 2007 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

- *IFRIC 9 Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the company's 2007 financial statements, is not expected to have any impact on the financial statements.

- *IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment an equity instrument for a financial asset carried at cost. IFRIC 10 will become mandatory for the company's 2007 financial statements, and is not expected to have any impact on the financial statements.

- I*FRIC 11 – IFRS 2 – Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash-settled), in the financial statements of the entity whose employees are entitled to the share-based payment, where equity instruments of the parent or another group company are transferred in settlement of the obligation. IFRIC 11, which becomes mandatory for the company's 2008 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 12 Service Concession Arrangements addresses the accounting requirements for public-to-private service concession arrangements in private sector entities. IFRIC 12 will become mandatory for the company's 2008 financial statements and is not expected to have any impact on the financial statements.

3. Financial Risk Management

<u>Financial risk factors</u>
The Company's activities expose it to a variety of financial risks: foreign currency risk, price risk, liquidity risk, credit risk, interest rate risk, and underinsurance risk.

<u>Foreign currency risk</u>
The Company has certain borrowings in foreign currencies. Exposure to foreign currency risk on borrowings has been disclosed in Note 11. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since 1974.

During 2006, the Company entered into a currency hedging arrangement to manage its exposure in respect of Euro obligations to a contracted supplier for certain payments between

3. Financial Risk Management (Cont'd)

the periods July, 2006 to December, 2007.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values.

Price risk

The Company is exposed to price risk because of investments held by the Company and described as available-for-sale financial assets at fair value.

Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Management does not believe significant liquidity risk exists at December 31, 2006.

Credit risk
Financial assets, which potentially subject the Company to concentrations of credit risk, consist principally of bank deposits, available-for-sale financial asset and trade receivables. The Company's bank deposits and available-for-sale financial asset are placed with high- credit quality financial institutions.

Trade receivables are presented net of the provision for impairment of receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Company's customer base and their dispersion across difference economic sectors. Management performs periodic credit evaluations of its customers' financial condition and does not believe significant credit risk exists at December 31, 2006.

Interest rate risk
Differences in contractual repricing or maturity dates and changes in interest rates may expose the Company to interest rate risk. The Company's exposure and the interest rates on its financial assets and liabilities are disclosed in Notes 8, 11 and 13.

Underinsurance risk
The Company is exposed to underinsurance risk on its assets as indicated in Note 10. The Company has established a "Self Insurance Fund" (Note 8) and will continue to set aside funds on an annual basis to manage this risk.

The Company has also concluded arrangements for a standby credit facility in the amount of $10 Million which will be utilized to restore Transmission & Distribution lines and related assets damaged by hurricane and other natural disasters, should it become necessary. The facility is convertible into a 12 year term installment loan subject to the necessary approvals. It is scheduled for review in June, 2007 and carries an interest rate of 7.41% per annum on the credit facility and 6.5% if converted into a demand loan.

3. Financial Risk Management (Cont'd)

Fair values
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The estimated fair value of cash and bank deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. Critical Accounting Estimates and Judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant use of material adjustment in the next financial year are discussed below:

(a) *Pension benefits assumptions*
The present value of the pension obligations depends on a number of factors that are determined by independent qualified actuaries using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the expected long-term rate of return on the relevant plans assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

4. Critical Accounting Estimates and Judgements (Cont'd)

(a) *Pension benefits assumptions (Cont'd)*

The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long-term historical returns, asset allocation and future estimates of long-term obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of Government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 9.

Were the actual expected return on plan assets to differ by 10% from management's estimates, the carrying amount of pension obligations would be an estimated $123,800 higher or $123,800 lower.

(b) *Allowances for credit losses*
(c) *Impairment of assets*
(d) *Determining fair values*
(e) *Estimation of unbilled sales and fuel charges*
(f) *Financial asset and liability classification*

Accounting policies 2(e), 2(i), 2(q) and 2(g) contain information about the assumptions and their factors relating to allowances for credit losses, impairment of assets, estimation of unbilled sales and fuel charges, and financial asset and liability classification respectively. Note 3 contains information about the assumptions and their factors relating to determining fair values

It is possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the assets.

5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2006	2005
Cash at bank and in hand	$ 2,132,324	23,977

6. Trade and other receivables

	2006	2005
Trade receivables	$ 25,734,168	38,317,075
Less: provision for impairment of trade receivables	(4,392,850)	(4,867,482)
Trade receivables, net	21,341,318	33,449,593
Other receivables	2,233,862	1,377,403
Less: provision for impairment of other receivables	(343,498)	(154,911)
Other receivables, net	1,890,364	1,222,492
Accrued income	10,444,601	13,069,599
Prepayments	641,100	591,184
	11,085,701	13,660,783
	$ 34,317,383	48,332,868

7. Inventories

	2006	2005
Fuel inventories	$ 1,700,632	2,089,231
Generation spare parts	7,655,933	6,353,517
Transmission, distribution and other spares	7,615,711	4,931,166
Gross inventories	16,972,276	13,373,914
Less: provision for impairment of inventories	(1,691,411)	(1,730,484)
	$ 15,280,865	11,643,430

8. Available-for-sale Financial Asset

	2006	2005
Securities: available-for sale	$ 2,687,429	1,960,583
At beginning of year	$ 1,960,583	1,265,636
Additions for year	726,846	694,947
At end of year	$ 2,687,429	1,960,583

There were no disposals or impairment provisions with respect to the available-for-sale financial asset in 2006 or 2005.

8. Available-for-sale Financial Asset (Cont'd)

The Company has established a "Self Insurance Fund" to assist in financing risk exposures on certain assets that are under-insured due to the non-availability of the relevant cover or prohibitive pricing. The Company will be setting aside funds on an annual basis and has, at December 31, 2006, subscribed for US$0.992m, 49,581.52 units (2005 – 0.723m, 36,171.72 units) in a "US Dollar Money Market Fund" established by the Unit Trust Corporation of Trinidad & Tobago. The effective interest rate at December 31, 2006 was 5% (2005 – 5%).

9. Retirement Benefit Asset

Grade I Employees
The Company contributes to a defined benefit pension scheme with Sagicor Life Inc. for Grade I employees.

Grade II Employees
The Company contributes to a defined benefit pension scheme with Colonial Life Insurance Company for Grade II employees.

The most recent actuarial valuation of the above two schemes is dated December 31, 2003. The plans were valued using the "Projected Unit Credit" method of valuation.

The principal actuarial assumptions used for both schemes were as follows:

	2006 %	2005 %
Discount rate	7.0	7.0
Expected return on plan assets	7.5	7.5
Future salary increases	5.5	5.5
NIC ceiling increases	2.0	2.0
Future pension increases	0.0	0.0

The amounts recognised in the balance sheet at December 31, 2005 are determined as follows:

		Grade II		Grade I		Total	
		2006	2005	2006	2005	2006	2005
Present value of funded obligations	$	(8,772,000)	(8,377,000)	(8,409,000)	(7,741,000)	(17,181,000)	(16,118,000)
Fair value of plan assets		10,979,000	10,249,000	10,469,000	9,549,000	21,448,000	19,798,000
Unrecognised actuarial loss/(gain)		(1,314,000)	(1,024,000)	(103,000)	(19,000)	(1,417,000)	(1,043,000)
Defined benefit asset	$	893,000	848,000	1,957,000	1,789,000	2,850,000	2,637,000

9. Retirement Benefit Asset (Cont')

The amount of $2,850,000 (2005 - $2,637,000) is recognised as a defined benefit asset as it wil be available to the Company to fund a contribution reduction in the future. The Trustees of the Grade I and Grade II pension schemes are precluded from paying out the $2,850,000 (2005 - $2,637,000) to the Company.

Movements in the defined benefit obligation for the year ended December 31, 2006 were as follows;

		Grade II		Grade I		Total	
		2006	2005	2006	2005	2006	2005
Defined benefit obligation as at January 1	$	8,377,000	7,698,000	7,741,000	7,149,000	16,118,000	14,847,000
Services and interests costs		975,000	901,000	779,000	717,000	1,754,000	1,618,000
Members' contributions		167,000	155,000	181,000	199,000	348,000	354,000
Benefit improvements		-	49,000	-	23,000	-	72,000
Benefits paid		(365,000)	(278,000)	(135,000)	(200,000)	(500,000)	(478,000)
Expense allowance		(33,000)	(31,000)	(42,000)	(41,000)	(75,000)	(72,000)
Actuarial gain		(349,000)	(117,000)	(115,000)	(106,000)	(464,000)	(223,000)
Defined obligation benefit as at December 31	$	8,772,000	8,377,000	8,409,000	7,741,000	17,181,000	16,118,000

The movements in the plans' assets for the year ended December 31, 2006 were as follows:

		Grade II		Grade I		Total	
		2006	2005	2006	2005	2006	2005
Fair value of plan assets at January 1	$	10,249,000	9,384,000	9,549,000	8,750,000	19,798,000	18,134,000)
Contributions paid - company		259,000	322,000	222,000	244,000	481,000	566,000
Contributions paid - members		167,000	155,000	181,000	199,000	348,000	354,000)
Expected return on plan assets		761,000	702,000	725,000	664,000	1,486,000	1,366,000
Benefits paid		(365,000)	(278,000)	(135,000)	(200,000)	(500,000)	(478,000)
Expense allowance		(33,000)	(31,000)	(42,000)	(41,000)	75,000)	(72,000)
Actuarial loss		(9,000)	(5,000)	(1,000)	(7,000)	(90,000)	(72,000)
Fair value of plan assets at December 31	$	10,979,000	10,249,000	10,469,000	9,549,000	21,448,000	19,798,000

9. Retirement Benefit Asset (Cont')

Plan assets consist of the following:

	Grade II		Grade I		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Equity securities	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Property	-	-	-	-	-	-
Deposit administration account	100%	100%	100%	100%	100%	100%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

The actual return on plan assets for the year ended December 31, 2006 was as follows:

		Grade II		Grade I		Total	
		2006	**2005**	**2006**	**2005**	**2006**	**2005**
Return on plan assets	$	702,000	697,000	694,000	597,000	1,396,000	1,294,000

The amounts recognized in the statement of income for the year ended December 31, 2006 was as follows:

				Grade II		Grade I	Total
		2006	**2005**	**2006**	**2005**	**2006**	**2005**
Current service cost	$	399,000	370,000	220,000	203,000	619,000	573,000
Interest on defined benefit obligations		576,000	531,000	559,000	514,000	1,135,000	1,045,000
Expected return on plan assets		(761,000)	(702,000)	(725,000)	(664,000)	(1,486,000)	(1,366,000)
Amortised net gain		-	49,000	-	23,000	-	72,000
Past service costs		-	-	-	-	-	-
Net pension costs	$	214,000	248,000	54,000	76,000	268,000	324,000

The credit is recognized in the following line items in the statement of income:

		2006	**2005**
Administrative expenses	$	20,526,088	24,297,914

9 Retirement Benefit Asset (Cont')

Movement in asset recognised in the balance sheet was as follows:

		2006	2005
At beginning of year	$	2,637,000	2,395,000
Total expenses as shown above		(268,000)	(324,000)
Contributions paid		481,000	566,000
At end of year	$	2,850,000	2,637,000

Actuarial gains and losses recognized directly in equity were as follows:

		Grade II		Grade I		Total	
		2006	2005	2006	2005	2006	2005
Cumulative amount as at January 1	$	(1,024,000)	(912,000)	(19,000)	20,000	(1,043,000)	(892,000)
Recognised during the period		(290,000)	(112,000)	(84,000)	(39,000)	(374,000)	(151,000)
Cumulative amount as at December 31	$	(1,314,000)	(1,024,000)	(103,000)	(19,000)	1,417,000	(1,043,000)

Historical information for Grade I and Grade II

		Grade II		Grade I		Total	
		2006	2005	2006	2005	2006	2005
Present value of defined benefit obligation	$	8,772,000	8,377,000	8,409,000	7,741,000	17,181,000	16,118,000
Fair value of plan assets		(10,979,000)	(10,249,000)	(10,469,000)	(9,549,000)	(21,448,000)	(19,798,000)
(Surplus)/deficit	$	(2,207,000)	(1,872,000)	(2,060,000)	(1,808,000)	(4,267,000)	(3,680,000)
Experience adjustment on plan liabilities	$	(349,000)	(117,000)	(115,000)	(106,000)	(464,000)	(223,000)
Experience adjustment on plan assets	$	(59,000)	(5,000)	(31,000)	(67,000)	(90,000)	(72,000)

9 Retirement Benefit Asset (Cont')

Grade III Employees
For its senior employees, the Company contributes to the regional CDC Caribbean Pension Scheme administered by Sagicor Life Inc. The total membership of the scheme at the date of the last actuary valuation, on January 1, 2004 was as follows:

	Number
Active members	46
Deferred pensioners	20
Pensions in payment	5
	71

Morgan Grenfell Asset Management invests the assets supporting the plan.

The most recent actuarial valuation of the plan dated January 1, 2004 showed for all members, assets valued at $18,598,799 and pension benefit liabilities valued at $17,087,460. The report was prepared based on draft financial statements for the pension scheme for 1999 and 2000 as adjusted by information obtained by the actuary from the administrator.

The plan was valued using the “Projected Unit Credit” method of valuation. The financial assumptions made included a rate of return on assets of 7%, a rate of salary increases of 6% and a rate of pension increases during retirement of 3%.

10. Property, Plant and Equipment

Property, plant and equipment comprises:

		Land and Buildings	Plant and Machinery	Motor Vehicles	Furniture and Fittings	Work in Progress	Total
Cost							
Beginning of year	$	84,139,469	405,853,300	3,405,337	9,376,126	9,296,710	512,070,942
Additions		231,477	15,390,019	274,350	419,205	9,793,019	26,108,070
Transfers		17,846	8,685,708	-	(669,495)	(8,034,059)	-
Disposals		(63,790)	-	(149,887)	-	-	(213,677)
End of year		84,325,002	429,929,027	3,529,800	9,125,836	11,055,670	537,965,335
Accumulated Depreciation							
Beginning of year		20,980,878	204,446,711	2,839,991	6,633,879	-	234,901,459
Charge for the year		2,000,677	21,765,481	276,682	720,181	-	24,763,021
Eliminated on disposals		(50,803)	-	(149,887)	-	-	(200,690)
End of year		22,930,752	226,212,192	2,966,786	7,354,060	-	259,463,790
Net Book Value							
December 31, 2006	$	61,394,250	203,716,835	563,014	1,771,776	11,055,670	278,501,545
December 31, 2005	$	63,158,591	201,406,589	565,346	2,742,247	9,296,710	277,169,483

10. Property, Plant and Equipment (Cont'd)

The Company carries insurance coverage on its main assets on a group basis with electricity utility companies in two neighbouring islands. Liability on the external transmission and distribution system, which is included in property, plant and equipment at an historical cost of $249,591,222 at December 31, 2006 (2005 - $230,243,391), is limited to an annual aggregate of $100,000,000 for the three utilities.

Transmission and distribution insurance cover is shared with the electricity utility company in one of the neighbouring islands. Combined liability is limited to $100,000,000 for all property excluding transmission and distribution for each and every event and in aggregate for the two utilities.

Borrowing costs amounting to $228,218 (2005 - $826,440) were capitalized during the year.

11. Borrowings

This comprises:

	Notes		2006	2005
Current				
Bank overdraft		$	5,530,572	1,997,696
Bank borrowings			11,942,337	12,517,514
Related parties	23		7,980,013	1,142,342
			25,452,922	15,657,552
Non-current				
Bank borrowings			23,455,593	35,668,807
Related parties	23		57,904,363	49,246,838
			81,359,956	84,915,645
Total borrowings		$	106,812,878	100,573,197

Borrowings include liabilities amounting to $97,595,057 (2005 - $86,326,549) and the bank overdraft that are secured by hypothecary obligations and mortgage debentures creating fixed charges over all immovable property and floating charges over all other assets, all ranking pari passu pursuant to a security sharing agreement, and assignment of insurance policies. Also included in borrowings are loans guaranteed by the Government of St. Lucia amounting to $11,217,821 (2005 - $14,246,648).

11. Borrowings (Cont'd)

The weighted average effective rates at the balance sheet date were as follows:

	2006 %	2005 %
Current		
Bank overdraft	9.00	9.00
Bank borrowings	6.07	6.07
Related parties	7.37	7.37

Maturity of non-current borrowings:

	2006	2005
Between 1 and 2 years	$ 18,649,829	16,264,503
Between 2 and 5 years	35,792,647	34,265,393
Over 5 years	$ 26,917,480	34,385,749
	81,359,956	84,915,645

12. Trade and Other Payables

	2006	2005
Trade payables	$ 4,311,617	4,360,067
Accrued expenses	11,244,365	22,185,508
Other payables	5,537,946	6,039,120
Related party - shareholders	91,122	75,504
	$ 21,185,050	32,660,199

13. Consumer Deposits

Consumers requesting energy connections are required to pay a deposit that is refundable when service is no longer required. Interest accrues on these deposits at a rate of 3% p.a. at December 31, 2006 (2005 – 3% p.a.). Accrued interest of $2,985,334 (2005 - $2,917,102) is included in consumer deposits.

14. Deferred Tax Liability

Deferred tax liability is calculated in full on temporary differences under the balance sheet liability method using a principal tax rate of 30% (2005 – 30%). The movement on the deferred tax liability account is as follows:

		2006	2005
At beginning of year	$	29,724,018	32,291,405
Expensed/(reversed) during the year		140,020	(2,567,387)
At end of year	$	29,864,038	29,724,018

Deferred tax liabilities are attributed to the following items:

		2006	2005
Property, plant and equipment	$	29,009,038	28,932,918
Pensions and retirement benefit asset		855,000	791,100
	$	29,864,038	29,724,018

15. Consumer Contributions

		2006	2005
At beginning of year	$	21,695,445	22,120,314
Contributions received		2,439,656	1,268,959
Amortisation for the year		(1,657,575)	(1,693,828)
At end of year	$	22,477,526	21,695,445

16. Share Capital

	2006	2005
Authorised:		
Voting ordinary shares	15,000,000	15,000,000
Non-voting ordinary shares	800,000	800,000

		2006	2005
Issued and fully paid			
11,200,000 (2005 – 11,200,000) voting ordinary shares	$	77,562,792	77,562,792
520,000 (2005 – 520,000) non-voting ordinary shares		2,600,000	2,600,000
	$	80,162,792	80,162,792

17. Tariff Reduction Reserve

Under the provisions of the Electricity Supply Amendment Act Nos. 12 of 2006 and 13 of 2006, a new mechanism is in effect for the computation of the Allowable Rate of Return and is based on a predetermined range of Return on Average Contribute Capital.

The range is limited to between 2% and 7% above the cost of the most recent long-term bonds issued by the Government of St. Lucia on the Regional Government Securities Market, with a minimum return of 10% and no cap. In the event that the Allowable Rate of Return is higher than the permitted maximum, 50% of the excess is distributable to hotel and industrial customers. The Act provides for the Minister, by Order to include "customers in need of special protection". The distribution is computed as an adjustment to the base tariff based upon consumption in the previous financial year. In the event that the Rate of Return falls below the minimum of 10% provision is also made in for the upward adjustment of the base tariff.

Under the provisions of these amendments, an amount of $3,087,353 (2005 - $4,556,783) is due to qualifying customers, and for this reporting period, has been included in trade and other payables. Of the $4,556,783 allocated in the previous year, $4,099,658 was transferred to trade and other payables during the current year, with the balance of $457,125 being returned to retained earnings.

18. Prior Year Adjustment

The Company's retained earnings at December 31, 2005 were overstated by $9,538,521, this being withholding taxes and related penalties and interest that the Government of St. Lucia had, by Cabinet Conclusion in 2003, deemed payable in respect of insurance premiums paid to non-resident companies in respect of the financial years 2001 to 2005. Of this amount, $8,240,240 related to years up to December 31, 2004.

The effect of the correction of this error is to:

(a) Reduce retained earnings at December 31, 2004 by $8,240,240 and to increase trade and other payables at that date by an equivalent amount, and
(b) Reduce the profit for the year ended December 31, 2005 by $1,298,281, and to increase trade and other payables at that date by an equivalent amount.

19. Dividends

		2006	2005
Interim - $0.60 (2005 - $0.65) per share	$	7,032,000	7,618,000
Final - $0.82 (2005 - $0.69) per share		9,610,400	8,086,800
Balance of prior years dividends		-	9,662
	$	16,642,400	15,714,462

20. Other Gains/(Losses), Net

		2006	2005
Gain on disposal of property, plant and equipment	$	513,813	83,964
Foreign exchange losses, net		(10,458)	(115,768)
	$	503,355	(31,804)

21. Taxation

		2006	2005
Current tax	$	8,445,783	9,650,146
Net change in deferred tax liabilities (Note 14)		140,020	(2,567,387)
	$	8,585,803	7,082,759

Tax on the Company's profit before taxation differs from the expected amount that would arise using the statutory tax rate of 30% (2005 – 30%) as follows:

		2006	2005
Profit before taxation	$	35,582,562	32,784,419
Tax calculated at the statutory rate of 30% (2004 – 32%)		10,674,769	9,835,326
Tax effect of income not subject to tax		(435,417)	(1,138,328)
Tax effect of expenses not deductible for tax		1,208,007	403,973
Tax effect of prior year adjustment and change in tax rates		(2,861,556)	(2,018,212)
Actual tax charge	$	8,585,803	7,082,759

22. Earnings Per Share

Earnings per share have been calculated by dividing the profit for the year of $26,996,759 (2005 - $25,701,660) by the weighted average number of issued ordinary shares of 11,720,000 (2005 - 11,720,000).

23. Related Parties

(a) *Identification of related party*
A party is related to the Company if:

(i) Directly or indirectly the party:
- Controls, is controlled by, or is under common control with the Company.
- Has an interest in the Company that gives it significant influence over the Company or
- Has joint control over the Company.

(ii) The party is a member of the key management personnel of the Company
(iii) The party is a close member of the family of any individual referred to in (i) or (ii)
(iv) The party is a post-employment benefit plan for the benefit of employees of the Company or any company that is a related party of the Company,

(b) *Related party transactions and balances*
A number of transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, or commercial terms and conditions.

23. Related Parties (Cont'd)

(c) *Transactions with key management personnel*

In addition to their salaries, the Company also provides non-cash benefits to executive officers and contributions to a post-employment defined benefit plan on their behalf. The key management personnel compensations are as follows:

- Short-term employee benefits
- Part-employment benefits
- Termination benefits

The Company is controlled by the following entities:

	2006	2005
	%	%
CBPF Saint Lucia Limited	20.00	20.00
First Citizens Bank Limited	20.00	20.00
National Insurance Corporation	16.79	16.79
Castries City Council	16.33	16.33
Government of St. Lucia	12.44	12.44
	85.56	85.56

The remaining 14.44% (2005 – 14.44%) of the shares is widely held.

Transactions with shareholders during the year were as follows:

		2006	2005
Revenue			
National Insurance Corporation	$	2,504,570	2,356,854
Castries City Council		1,235,317	1,251,162
Government of St. Lucia and its corporations		16,468,682	14,743,043
	$	20,208,569	18,351,059

23. Related Parties (Cont'd)

Finance Costs			
National Insurance Corporation	$	546,209	618,659
First Citizens Bank Ltd.		3,627,842	2,895,044
	$	4,174,051	3,513,703
Lease Charges			
Government of Saint Lucia	$	100,000	100,000

The Government of St. Lucia receives a 10% discount on tariff sales for all accounts other than street lighting.

Loans from shareholders at the year ended were as follows:

		2006	2005
National Insurance Corporation			
At beginning of year	$	7,294,294	8,206,080
Accrued interest		43,073	49,227
Repayments during year		(954,860)	(961,013)
At end of year	$	6,382,507	7,294,294

		2006	2005
First Citizens Bank Limited			
At beginning of year	$	43,094,885	33,140,200
Accrued interest		256,306	187,482
Draw-downs during year		16,338,158	9,909,412
Repayments during year		(187,482)	(142,209)
At end of year	$	59,501,867	43,094,885

The above loans are fully secured (Note 11).

23 Related Parties (Cont'd)

Balances arising from supply of services at year end (Note 6) were as follows:

		2006	2005
National Insurance Corporation	$	191,709	200,674
Castries City Council		80,391	79,091
Government of St. Lucia		3,788,159	11,016,354
	$	4,060,259	11,296,119

24. Expenses by Nature

		2006	2005
Fuel cost over base	$	34,712,358	89,169,664
Fuel at base price		84,646,771	5,826,036
Depreciation on property, plant and equipment		24,763,021	23,884,783
Repairs and maintenance		13,808,192	14,364,800
Employee benefit expense		16,296,202	15,582,792
Other operating expenses		13,069,031	15,820,352
Amortisation of consumer contributions		(1,657,575)	(1,693,828)
	$	185,638,000	162,954,599

25. Employee Benefit Expense

		2006	2005
Wages and salaries	$	15,346,770	14,628,531
Pension costs – defined benefit plans		268,000	324,000
Grade III employees – defined benefit plan		681,432	630,261
	$	16,296,202	15,582,792

The number of permanent employees at December 31, 2006 was 225 (2005 – 227).

26. Commitments

Loan commitment
On October 22, 2003, the Company entered into a loan agreement with First Citizens Bank Limited for a loan of $81.5 million to finance its capital expansion programme including generation, transmission and distribution and wind energy. The loan is for a period of 15 years, with a three-year moratorium on principal. Interest is charged at a fixed rate of 7.15% per annum. The amount drawn down from this facility at December 31, 2006 amounted to $59,245,563 (2005 - $42,907,404).

Capital commitments
Company had capital commitments at December 31, 2006 of $29,683,466 (2005 - $ nil) in respect of work contracted.

Operating lease commitment
The future aggregate minimum lease payments on the operating lease is as follows:

		2006	2005
Not later than 1 year	$	100,000	100,000
Later than 1 year and not later than 5 years		-	-
	$	100,000	100,000

The above operating lease is for a term of twenty years. A yearly rent of $100,000 is payable on the 1st day of May in each year of the first 5 years and thereafter at an annual rental to be negotiated between the parties by reference to the cost of living index as published in the Official Gazette of St. Lucia and by reference being paid for similar premises at Union at the time of such negotiations.

OPERATING AND FINANCIAL STATISTICS 1997-2006

OPERATING STATISTICS 1997 - 2006

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Generating Plant (kW)										
Available Capacity	65,800	65,800	56,800	56,800	66,400	66,400	66,400	59,900	59,900	44,500
Firm Capacity	46,300	46,300	37,000	37,000	47,800	47,800	47,800	46,700	46,700	32,600
Peak Demand	49,800	49,200	46,600	44,900	43,400	43,300	43,300	41,000	37,200	34,650
Percentage growth in peak demand	1.2%	5.6%	3.8%	3.5%	0.2%	0.0%	5.6%	10.2%	7.4%	6.6%
Sales (kWh x 1000)										
Domestic	101,635	98,914	96,062	92,848	89,084	88,443	85,075	79,491	75,639	69,617
Commercial (including Hotels)	160,895	158,483	151,451	141,374	133,996	137,017	131,863	120,628	108,618	97,248
Industrial	12,982	12,522	12,345	13,185	12,673	12,954	13,250	12,271	11,640	11,287
Street Lighting	8,886	7,480	6,544	4,713	3,634	5,002	3,893	3,271	2,931	2,605
Total Sales	284,398	277,399	266,402	252,120	239,387	243,416	234,081	215,661	198,828	180,757
Power Station and Office Use (kWh x 1000)	13,071	13,172	12,076	11,793	11,970	12,522	12,069	10,800	8,817	8,455
Losses (kWh x 1000)	33,291	33,043	30,062	35,070	34,356	30,601	30,595	29,734	28,236	23,935
Units Generated (kWh x 1000)	330,760	323,614	308,540	298,983	285,713	286,539	276,745	256,195	235,881	213,147
Percentage growth in units generated	2.2%	4.9%	3.2%	4.6%	-0.3%	3.5%	8.0%	8.6%	10.7%	7.6%
Percentage growth in sales	2.5%	4.1%	5.7%	5.3%	-1.7%	4.0%	8.5%	8.5%	10.0%	9.4%
Percentage Losses (excl. prior year sales adjs.)	10.1%	10.2%	10.2%	11.7%	12.0%	10.7%	11.1%	11.6%	12.0%	11.2%
Number of Consumers at Year End										
Domestic	48,697	47,417	46,347	44,980	43,460	42,548	41,097	39,825	37,956	36,071
Commercial (Including Hotels)	5,714	5,474	5,307	5157	5,050	5,082	5,102	5,049	4,896	4,843
Industrial	95	95	96	102	106	112	116	115	119	121
Street Lighting (accounts)	3*	16	16	14	17	18	17	17	17	19
	54,509	53,002	51,766	50,253	48,633	47,760	46,332	45,006	42,988	41,054
Percentage growth	2.8%	2.4%	3.0%	3.3%	1.8%	3.1%	2.9%	4.7%	4.7%	5.8%

*** At their request the accounts of the Government of St. Lucia was rationalised from 15 to 2 and this total includes one other entity**

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Average Annual Consumption Per Customer (kWh)										
Domestic	2,087	2,086	2,073	2,064	2,050	2,079	2,070	1,996	1,993	1,930
Commercial (including Hotels)	28,158	28,952	28,538	27,414	26,534	26,961	25,845	23,892	22,185	20,080
Industrial	136,653	131,811	128,594	129,265	119,558	115,661	114,224	106,709	97,815	93,281
Diesel fuel consumed (Imp. Gall.)	17,009,188	16,552,145	15,961,905	15,436,122	14,736,896	14,860,580	14,388,680	13,276,298	12,599,190	11,826,009

ST. LUCIA ELECTRICITY SERVICES LIMITED
Financial Statistics 1997 - 2006

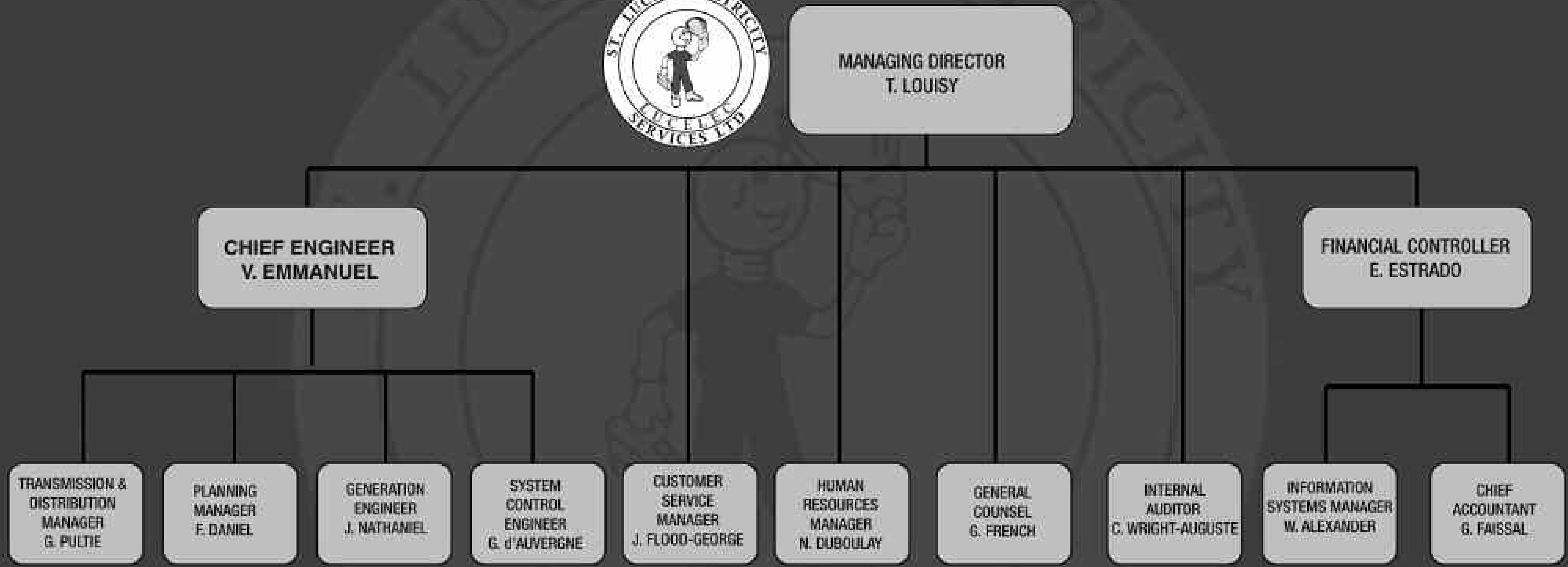
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Units Sold (kWh x 1000)	284,398	277,399	266,402	252,120	239,387	243,417	234,080	215,661	198,828	180,757
Tariff Sales (Cents per kWh)	67.4	40.8	41.7	41.0	41.0	41.3	41.2	40.8	39.8	39.1
Fuel Charge (Cents per kWh)	12.3	32.1	22.6	18.3	14.9	16.6	18.7	11.5	11.5	15.5
Summarised Balance Sheet (EC$000's)										
Fixed Assets (Net)	267,447	267,872	223,932	236,991	250,360	243,001	248,243	234,159	240,642	166,982
Retirement Benefit Asset	2,850	2,637	2,395	1,983	1,520	1,083	843	-	-	-
Available for Sale Investment	2,687	1,961	1,266	610	-	-	-	-	-	-
Capital Work in Progress	11,055	9,297	49,930	15,896	5,654	19,957	13,485	3,869	507	54,344
Current Assets	54,460	60,000	54,878	43,519	44,873	47,879	45,196	51,731	39,325	48,983
Current Liabilities	(57,545)	(66,625)	(48,165)	(35,743)	(38,144)	(46,451)	(41,751)	(45,315)	(37,496)	(28,464)
Total	280,954	275,142	284,236	263,256	264,263	265,469	266,016	244,443	242,978	241,845
Share Capital	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163
Retained Earnings	53,932	46,028	49,081	40,831	35,038	30,279	24,529	18,187	11,405	6,671
Other Reserves & Consumer Contributions	25,328	24,332	24,515	25,250	24,628	23,708	23,761	22,340	21,448	20,007
Long Term Debt	81,360	84,916	88,848	75,927	83,988	91,983	99,216	88,047	95,117	105,597
Other Long Term Liabilities	40,171	39,703	41,629	41,085	40,446	39,336	38,347	35,706	34,845	29,407
Total	280,954	275,142	284,236	263,256	264,263	265,469	266,016	244,443	242,978	241,845

Summarised Income Statement (EC$000's)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Operating Revenues										
Electricity	191,730	113,334	111,171	103,455	98,213	100,450	96,501	87,923	79,203	70,623
Fuel Surcharge	34,962	88,961	60,147	46,110	35,495	40,492	43,773	24,878	22,859	28,008
Other	1,061	848	545	749	481	842	837	715	701	629
Total	227,753	203,143	171,863	150,314	134,189	141,784	141,111	113,516	102,763	99,260
Operating Costs										
Fuel (Cost over Base)	34,712	89,170	60,114	45,669	35,673	40,367	43,289	24,678	22,695	27,357
Generation O&M	91,504	13,682	15,202	14,084	13,208	14,498	12,459	12,564	16,690	19,861
Transmission & Distribution	14,888	14,080	11,802	12,806	12,519	11,925	12,373	10,130	10,072	9,665
Administrative & Selling	19,558	23,352	18,387	19,482	20,344	18,305	16,356	14,054	12,393	10,879
Depreciation	24,763	23,885	21,905	20,493	19,608	18,893	17,639	16,974	13,857	12,025
Total	185,425	164,169	127,410	112,534	101,352	103,988	102,116	78,400	75,707	79,787
Operating Income	42,328	38,974	44,453	37,779	32,837	37,796	38,995	35,116	27,056	19,473
Interest Expense	7,249	6,074	5,686	7,344	8,805	9,360	7,574	8,259	7,055	6,644
Foreign Exchange (Gain) Loss/ Other	(503)	116	15	288	(37)	-	-	(5)	-	27
Net Income before Tax	35,582	32,784	38,752	30,147	24,069	28,436	31,421	26,862	20,001	12,802
Taxation	8,585	7,083	10,628	10,530	7,768	8,968	10,294	8,261	6,926	3,673
Net Income after Tax	26,997	25,701	28,124	19,616	16,301	19,468	21,127	18,601	13,075	9,129
Dividend Declared	16,642	15,715	19,462	13,361	11,105	13,478	14,711	11,819	8,341	7,207
Retained Earnings for Year	10,355	9,986	8,662	6,256	5,196	5,990	6,416	6,782	4,734	1,922
Retained Earnings beginning of Year	46,028	49,081	40,831	35,038	30,279	24,529	18,187	11,405	6,671	20,796
Transfer to Retirement Benefit & Reserves	636	(242)	(412)	(463)	(437)	(240)	(74)	-	-	-
Tariff Reduction Reserve	(3,087)	(4,557)	-	-	-	-	-	-	-	-
Prior Year Adjustment	0	(8,240)	-	-	-	-	-	-	-	(16,047)
Retained Earnings end of Year	53,932	46,028	49,081	40,831	35,038	30,279	24,529	18,187	11,405	6,671
Return on Rate Base	18.91%	19.67%	12.91%	10.52%	9.70%	11.08%	10.68%	10.47%	8.15%	8.28%
Earnings per share (EC$)	$ 2.30	$2.19	$2.40	$1.67	$1.39	$1.66	$1.80	$1.58	$1.10	$0.86
Dividend per share (EC$)	$ 1.42	$1.34	$1.66	$1.14	$0.95	$1.15	$1.26	$1.00	$0.70	$0.60
Debt/Equity Ratio	43/57	43/57	44/56	45/55	50/50	53/47	48/52	49/51	51/49	45/55

The return on rate base calculations changed with effect from 2005 in accordance with Amendment Act No 12 of 2006 and 13 of 2006.

ST. LUCIA ELECTRICITY SERVICES LTD.
ORGANIZATIONAL CHART JULY 2006



Annual Report 06 Our Powerful People

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